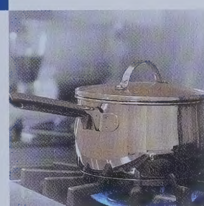


2005 Annual Report

AltaGas
utility group

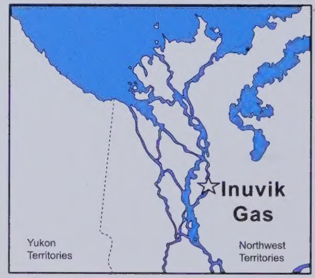
Our Investments

AltaGas Utility Group Inc. is a niche player in the Canadian utility marketplace.

Through our solid investments, AltaGas Utility Group Inc. distributes natural gas to almost 63,000 customers in three Canadian markets: Alberta, through AltaGas Utilities Inc.; Nova Scotia, through Heritage Gas Limited; and the Northwest Territories though Inuvik Gas Ltd. These regulated utility companies represent a stable, long-term business model with a diverse customer and rate base and significant growth opportunities.

AltaGas Utilities Inc.

Percent ownership	100
Employees	149
Customers	61,730
Pipeline	19,500 km
Service area	More than 90 communities throughout Alberta



Inuvik Gas Ltd.

Percent ownership	33.33
Employees	8
Customers	755
Pipeline	46 km
Service area	Town of Inuvik, Northwest Territories

Heritage Gas Limited

Percent ownership	24.9
Employees	26
Customers	369
Pipeline	84 km
Service area	Currently servicing areas in Dartmouth, Amherst and Cumberland County

Contents

AltaGas Utility Group Inc.

AltaGas Utility Group Inc. (Utility Group or the Corporation) offers stable, long-term earnings to shareholders. At the end of 2005, we held investments in three significant Canadian utility companies: AltaGas Utilities Inc. (AUI), Heritage Gas Limited (Heritage Gas) and Inuvik Gas Ltd. (Inuvik Gas). Each of these companies fills a niche in the marketplace and offers a combination of stability and long-term growth potential.

AltaGas Utilities Inc.

Headquartered near Edmonton in Leduc, Alberta, AUI has been providing natural gas service to customers for more than 50 years. Today AUI serves almost 62,000 customers - primarily residential, rural and commercial, with an infrastructure of approximately 19,500 km of distribution pipeline. Its business is geographically diversified in more than 90 small communities throughout Alberta. AUI serves approximately six percent of Alberta natural gas distribution customers.

Growth opportunities in AUI's business are largely defined by new demand in its service areas, combined with expansion opportunities within its franchise areas and potential acquisitions.

Heritage Gas Limited

Heritage Gas is based in Dartmouth, Nova Scotia and was established in 2002 to obtain and operate a full regulation class natural gas distribution franchise for Nova Scotia. The franchise gives Heritage Gas the exclusive right to distribute natural gas to all or part of six counties in Nova Scotia, including the Halifax Regional Municipality. Since its inception, Heritage Gas has expanded its service area in Nova Scotia to three communities.

Heritage Gas offers strong growth potential as the company expands its service area and customers convert to natural gas from other, less efficient or environmentally friendly fuel sources.

Inuvik Gas Ltd.

Inuvik Gas is the first Canadian commercial natural gas development project north of the Arctic Circle. It has the exclusive franchise for natural gas service in the Town of Inuvik, NWT. Since 1999, Inuvik Gas has provided residents and businesses in the Town of Inuvik with a secure supply of natural gas heating at lower cost than diesel fuel shipped from Edmonton. In six years, Inuvik Gas has grown to serve more than 70 percent of the Town of Inuvik's heating demand.

The conversion of larger commercial customers to natural gas is a growth opportunity for Inuvik Gas. Further growth is likely, due to economic activity associated with the proposed Mackenzie Gas Project. We expect that initially growth will lead to more services off the existing distribution system and then to expansion of the system.

Future Investments

Utility Group is positioned for growth. In addition to organic growth in our current franchise areas, we intend to pursue opportunities to invest in high-quality utility companies with long-term, stable returns.

President and Chief Executive Officer's Message

AltaGas Utility Group Inc. became a new, publicly traded corporation on November 17, 2005, when AltaGas Income Trust spun out its Natural Gas Distribution segment. Some of you may hold Utility Group shares as a result of this transaction, while others are new owners. To all of you, welcome and thank you for your investment.

Management of Utility Group will finance and make investment decisions, while the operation of the companies we hold will continue to be managed by their competent, experienced management teams. While Utility Group is a new player amongst publicly traded utilities in Canada, the three companies in which it has interests are not newcomers to the natural gas utility marketplace. These utilities have a track record of providing solid, steady earnings to their shareholders.

AltaGas Utilities Inc., currently the majority of Utility Group's assets and earnings, has been operating for more than 50 years. Its employees know their business well and operate an efficient, safe and reliable service. Many of these people have been with the utility for more than 20 years. Inuvik Gas Ltd. has been delivering natural gas to the residents of the Town of Inuvik in the Northwest Territories since 1999 and has extensive market penetration within the town. Heritage Gas Limited, while a relative newcomer in the energy utility marketplace, has been delivering increasing amounts of gas to an expanding customer base in Nova Scotia for more than two years. Its employees are enthusiastic, devoted and have thorough knowledge of the three communities in which they deliver gas - all imperative attributes for this type of new venture.

At the end of 2005, Utility Group's operating companies and 183 employees served almost 63,000 customers, delivering 24.5 Petajoules of natural gas through nearly 20,000 kilometres of pipe.

GROWTH

Our strategy is to grow this profitable, small-capitalization utility business. In the shorter-term, our growth is expected to be organic to our current operating businesses. In other words, it will come from steady population growth in the AUI franchise areas, which are experiencing the buoyant growth in the Alberta economy. It will come from the continued growth of the Heritage Gas distribution system, which is expected to expand within the Dartmouth and Amherst markets, to the Halifax International Airport in 2006, and across the Halifax Harbour to serve the Halifax Peninsula in 2007. And growth will come, on a smaller scale, from new subdivisions and commercial construction in the Town of Inuvik, already beginning to see activity due to the potential advancement of the Mackenzie Gas Project natural gas pipeline project.

Further growth is expected to occur through investment in infrastructure-based, utility-type businesses with predictable, steady returns that provide essential services such as water, electricity and natural gas to end-use customers in Canada.

Utility Group is well-positioned to fund growth opportunities as a result of steady cash from operations from AUI and Inuvik Gas, its strong balance sheet, and its access to credit, debt capital markets and Canadian equity markets. Undrawn debt capacity at March 15, 2006 was $35 million. The growing need for energy in North America, in conjunction with the continued focus on the environment, is good for the future growth prospects of clean-burning natural gas.

THE PEOPLE

Let me comment for a minute about the people who operate these utilities and their commitment to safety and the communities in which they live and work:

- AUI has one of the best safety records of any natural gas utility in Canada, which has prompted larger utilities to visit them in Leduc, Alberta to learn from their experience. During 2005, its 149 employees contributed in excess of 2,200 hours of personal time volunteering in support of local community events and activities. In addition, AUI received kudos from the Town of Drumheller and the Deputy Premier of Alberta for the work that its employees did to help prepare the community during the flood emergency that occurred during the summer of 2005, including assisting with the evacuation of approximately 1,000 buildings and 3,300 people during the height of the emergency.

- In 2005, Heritage Gas contributed over $15,000 to various community events in the Halifax Regional Municipality, the Town of Amherst and the Municipality of Cumberland County. In addition, its 26 employees contributed over 1,000 hours of personal time serving on local boards, including Dalhousie University, the Halifax Chamber of Commerce and Family SOS.

- Inuvik Gas won the North American Occupational Safety and Health award for the 1-20 employee category for the sixth consecutive year in 2005. It contributed close to $11,000 to various cultural, educational, environmental and local community initiative programs and its eight employees volunteered for approximately 600 hours with organizations and events in the community, including supporting, sponsoring and participating in the Youth Entry Level Skills program, which helps youth ages 15 to 29 gain entry level skills in the oil and gas sectors.

2005 RESULTS

Utility Group is reporting six weeks of results for 2005, from the acquisition date of the operating business on November 17, to December 31. Net income was $1.3 million, or $0.15 per share. In addition to these results, we have provided full-year results and comparative information for our operating businesses in the Management's Discussion and Analysis that follows.

Our results were impacted by warmer than normal weather in AUI's service area, partially offset by increased earnings from the growth of the Heritage Gas system. Head office costs were incurred from November 17. The six weeks reported represent the start of the winter heating season, which normally runs from November through March, and are not representative of the operations on an annualized basis. However, the 2005-2006 heating season did not begin until December and it has been unseasonally warm throughout the winter. Historically, the first and fourth quarters are strong income contributors, with losses usually reported in the second and third quarters. We do expect to see some negative impact on earnings in the first quarter due to unseasonably warmer weather in early 2006. The quarterly information provided for the operating business in the MD&A provides the quarterly trending, demonstrating the strong seasonality of the business.

BOARD OF DIRECTORS

Utility Group is fortunate to have a Board of Directors with enormous depth of experience in the Canadian energy industry. David Cornhill, Chairman, President and Chief Executive Officer of AltaGas Income Trust, has joined Utility Group's Board of Directors as Chairman. David's vision and wisdom will no doubt serve Utility Group well. David is joined by Dennis Dawson, Vice President, General Counsel and Corporate Secretary of AltaGas Income Trust, who has more than 21 years of oil and natural gas experience; Phillip Knoll, President of Knoll Energy and an energy executive with more than 27 years in the energy sector, primarily in the midstream business; Gerry Malin, currently a natural gas industry consultant and a former executive at AltaGas Income Trust with more than 35 years of experience in the oil an gas industry; and Bruce Petrie, a Chartered Accountant with in excess of 35 years of senior financial experience in the energy and utility industry.

My energy industry experience spans more than 25 years. As Senior Vice President Finance and Chief Financial Officer of AltaGas Income Trust, I have helped the Trust grow from $14 million in assets and 20 employees to $1.2 billion in assets and 600 employees over a decade. My plan is to grow Utility Group through further investment across Canada.

CHANGES AT AUI

Lorne Heikkinen, President of AltaGas Utilities Inc., has announced that he will retire in late June 2006. Lorne has been President of AUI since 1994, leading the natural gas distribution utility business that he joined in 1980 as it grew to service almost 62,000 customers in over 90 communities in Alberta. Earle Tuele, currently Vice President Operating Services at AUI, will assume the role of Acting President effective April 1, 2006 and will become President on Lorne's retirement. Earle has more than 26 years of natural gas distribution business experience with AUI and its predecessor companies.

Lorne Heikkinen has made a tremendous contribution to the growth and success of AUI. Under his leadership, the distribution company has reliably served its customers, while keeping rate increases to a minimum. We wish Lorne all the best. I have no doubt that his legacy of excellence and commitment to customers and the communities in which AUI does business will continue under Earle Tuele's leadership.

The leadership team at AUI is well recognized in Canada and runs a very good business. I thank Arnold Mantei, Vice President Controller, and Peter Whalley, Vice President Administrative Services, and their teams for their ongoing support.

DIVIDEND

The Board of Directors authorized the payment of a quarterly dividend of $0.03 to be paid on April 17, 2006 to shareholders of record on March 31, 2006. The annualized dividend represents an approximate 1.5 percent yield. We will be retaining a significant portion of our cash flow to reinvest in the build-out of the Heritage Gas Limited distribution system in Nova Scotia and to grow Utility Group through acquisitions.

THE FUTURE

2006 is a foundation year for Utility Group. We will focus on establishing ourselves in the utility and investment marketplaces and will look at acquisition prospects.

I believe that the future is bright. I look forward to the challenge of being Chief Executive Officer of your company and I thank you again for your investment in Utility Group.

Patricia M. Newson
President and Chief Executive Officer
March 15, 2006

Corporate Governance

As members of the Board of Directors of AltaGas Utility Group Inc. it is our responsibility to ensure that the interests of shareholders and other stakeholders are properly represented. To that end, the Board of Directors has assumed responsibility for stewardship of the Corporation and has developed standards and procedures for its operations that meet high standards of governance. We will regularly review the activities of the Corporation with a view to ensuring its business affairs are conducted appropriately, with the honesty, integrity, transparency and accountability that shareholders expect. We are committed to directing the activities of Utility Group to those high standards.

On behalf of the Board of Directors:

David W. Cornhill
Chairman of the Board

Utility Group believes that good governance improves performance and benefits all shareholders. Utility Group is committed to the highest standards of governance. The following is a summary of the Corporation's governance practices. A more detailed description of the Corporation's practices can be found in the Corporation's Information Circular, which will be available on the SEDAR system.

STATEMENT OF GOVERNANCE PRACTICES

Mandate of the Board

The Board of Directors of Utility Group exercises overall responsibility for the management and supervision of the affairs of the Corporation. This includes the appointment of the President and Chief Executive Officer and senior officers of Utility Group, approval of their compensation and monitoring of the Chief Executive Officer's performance. The Board of Directors will also review and adopt an annual strategic plan. Key objectives, as well as quantifiable operational and financial targets, and systems for the identification, monitoring and mitigation of principal business risks are incorporated into the annual strategy review. The Board of Directors ensures that a process is established that adequately provides for succession planning, including the appointing, training and monitoring of senior management.

BOARD COMPOSITION

The Board currently comprises six directors, five of whom are independent. Ms. Patricia Newson, President and Chief Executive Officer of Utility Group, is the only member of the Board of Directors who is also a member of management.

Board Committees

The Board has three standing committees: Audit and Governance; Environment and Safety; and Human Resources and Compensation. The Audit and Governance, and Human Resources and Compensation committees are composed only of non-management, independent directors. The Environment and Safety Committee includes a majority of non-management, independent directors. The President and Chief Executive Officer of Utility Group serves on the Environment and Safety Committee. Each of the committees has a Board of Directors-approved mandate that prescribes its composition and responsibilities, as well as administrative duties.

Audit and Governance Committee

The Audit and Governance Committee comprises three independent and financially literate directors who oversee the Corporation's financial reporting and governance processes on behalf of the Board of Directors. The Audit and Governance Committee reviews, reports and provides recommendations to the Board of Directors on the annual and interim financial statements, including the completeness and accuracy of financial reporting of the Corporation; the adequacy of risk management processes; the adequacy of its internal control system for financial reporting and disclosure; and the appointment, terms of engagement, provision of non-audit services and proposed fees of the independent auditor. The Audit and Governance Committee meets regularly in-camera with the external and internal auditors.

The Audit and Governance Committee is responsible for identifying individuals qualified to become Board of Director members, and recommends to the Board of Directors proposed nominees for election to the Board of Directors, and Board of Directors' compensation. The Committee is also responsible for reviewing, reporting and providing recommendations for improvement to the Board with respect to all aspects of governance. The Audit and Governance Committee, on a periodic basis, assesses the effectiveness of the Board of Directors as a whole, the Committees of the Board of Directors and the contributions of individual members. As well, the Committee is responsible for the orientation and education of new members of the Board of Directors and continuing development of existing members of the Board of Directors.

Environment and Safety Committee

The Environment and Safety Committee is responsible for reviewing, reporting and making recommendations to the Board of Directors on the Corporation's policies and procedures with respect to environment and occupational health and safety.

Human Resources and Compensation Committee

The Human Resources and Compensation Committee reviews, reports and provides recommendations to the Board of Directors on the compensation of the President and Chief Executive Officer and the appointment and compensation of senior corporate officers, succession plans, the compensation policy for all other employees and the approval of all grants of stock options.

Management's Discussion and Analysis

The following Management's Discussion and Analysis (MD&A) of financial condition and results of operations dated March 15, 2006 is a review of the results of operations and the liquidity and capital resources of AltaGas Utility Group Inc. (Utility Group or the Corporation) for the period from the date of incorporation on July 6 to December 31, 2005. Operations of the Corporation began on November 17, 2005, upon acquisition of the operating businesses of the Corporation. The MD&A should be read in conjunction with the accompanying audited Consolidated Financial Statements of Utility Group for the period ended December 31, 2005.

This MD&A contains forward-looking statements. When used in this MD&A, the words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "seek", "propose", "estimate", "expect", and similar expressions, as they relate to the Corporation or an affiliate of the Corporation, are intended to identify forward-looking statements. In particular, this MD&A contains forward-looking statements with respect to, among other things, business objectives, expected growth, results of operations, performance, business projects and opportunities and financial results. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. Such statements reflect the Corporation's current views with respect to future events based on certain material factors and assumptions and are subject to certain risks and uncertainties, including without limitation, changes in market, competition, governmental or regulatory developments, general economic conditions and other factors set out in the Corporation's public disclosure documents. Many factors could cause the Corporation's actual results, performance or achievements to vary from those described in this MD&A, including without limitation those listed above. These factors should not be construed as exhaustive. Should one or more of these risks or uncertainties materialize, or should assumptions underlying forward-looking statements prove incorrect, actual results may vary materially from those described in this MD&A as intended, planned, anticipated, believed, sought, proposed, estimated or expected, and such forward-looking statements included in, or incorporated by reference in this MD&A, should not be unduly relied upon. Such statements speak only as of the date of this MD&A. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.

Additional information regarding Utility Group can be found on its website at www.altagasutilitygroup.com. The continuous disclosure materials of Utility Group, including its prospectus, MD&A and audited financial statements, Annual Information Form, Information Circular and Proxy Statement, material change reports and press releases issued by Utility Group will be available through the Corporation's website at www.altagasutilitygroup.com or directly through the SEDAR system at www.sedar.com.

ALTAGAS UTILITY GROUP INC.

Utility Group was incorporated under the *Canada Business Corporations Act* as 6414958 Canada Limited on July 6, 2005 and changed its name to AltaGas Utility Group Inc. on July 28, 2005. On November 4, 2005, Utility Group filed a final prospectus in relation to its initial public offering of common shares; the sale of Utility Group common shares by AltaGas Holding Limited Partnership No. 1 (AltaGas LP#1); the distribution by AltaGas LP#1 and AltaGas Income Trust (the Trust) of common shares of Utility Group; and the acquisition, by way of spin-out, of the Trust's Natural Gas Distribution business. These transactions all closed on November 17, 2005.

Prior to the closing of the offering pursuant to the final prospectus, Utility Group issued 7,799,895 Utility Group common shares to the Trust in exchange for all the outstanding shares of AltaGas Utility Holdings Inc. (AUHI). AUHI owns 100 percent of AltaGas Utilities Inc. (AUI), a 24.9 percent interest in Heritage Gas Limited (Heritage Gas) and a one-third interest in Inuvik Gas Ltd. (Inuvik Gas).

The final prospectus qualified for sale: (a) a treasury offering of 390,000 Utility Group common shares at $7.50 per common share, for gross proceeds to Utility Group of $2.9 million; (b) a secondary offering of 1,716,000 Utility Group common shares by AltaGas LP#1 at $7.50 per common share, for gross proceeds to AltaGas LP#1 of $12.9 million; and (c) the distribution by the Trust and AltaGas LP#1 of 3,899,895 Utility Group common shares to Trust unitholders and holders of exchangeable partnership units of AltaGas LP#1 at the ratio of one Utility Group common share for each 13.9592 Trust units or exchangeable partnership units.

Upon completion of the transactions, the Trust retained ownership of 2,184,010 Utility Group common shares, or a 26.7 percent interest in Utility Group.

As part of the series of transactions, Utility Group assumed $74.7 million of AUHI's debt from the Trust.

Reference to Utility Group's financial information and the related discussion of financial results in the MD&A for the period ended December 31, 2005 do not represent a complete year of operations, but rather the results of operations since Utility Group's acquisition of AUHI on November 17, 2005. The businesses operated by Utility Group are natural gas distribution utilities, which are highly seasonal, as revenues are primarily based on the demand for space heating in the winter months, mainly from November to March. The businesses owned by AUHI have operated for several years. Management has provided selective historical, comparative information for the business of AUHI in this MD&A for the years ending December 31, 2005, 2004 and 2003.

OVERVIEW OF THE BUSINESS AND STRATEGY

Utility Group is a publicly traded company owning indirect interests in three companies: AUI; Heritage Gas; and Inuvik Gas. The business of these operating companies is the ownership and operation of regulated natural gas transmission and distribution facilities in Canada that deliver or sell natural gas to end-users. Natural gas is delivered by each of the operating companies to end-use customers from the interconnection point with natural gas transmission systems owned by other market participants. Utility Group's operating companies are not involved in the exploration for, or production or long-distance transmission of, natural gas. The natural gas delivery business is highly seasonal, with the majority of natural gas demand occurring during the winter heating season that extends from November to March. Natural gas delivered during the winter season typically accounts for approximately two-thirds of annual natural gas delivery revenue, resulting in strong first and fourth quarter results and second and third quarter losses.

AUI and Heritage Gas operate in regulated marketplaces where, as franchise holders, they are allowed the opportunity to earn regulated rates of return that provide for recovery of costs and a return of and a return on capital from the franchise service base. Return on rate base comprises regulatory allowed financing costs and return on common equity. Inuvik Gas operates a natural gas distribution franchise in a "light-handed" regulatory environment where delivery service and natural gas pricing are market based.

The Corporation plans to grow by actively pursuing the prudent acquisition of other utility infrastructure businesses in Canada. The Corporation's management team and Board of Directors have significant utility management, acquisition and capital markets experience. Management of the Corporation believes this experience will ensure prudent management and financing of existing capital commitments to support the build-out of the Heritage Gas system and new growth opportunities as they are identified.

ALTAGAS UTILITIES INC.

AUI has operated for over 50 years as a provincially regulated natural gas utility serving more than 90 communities in Alberta.

AUI's transmission and distribution system consists of approximately 19,500 kilometres of pipeline, operating at pressures ranging from 200 kilopascals to 8,755 kilopascals. AUI uses steel and aluminum pipe to transport natural gas at higher pressures, while natural gas at lower pressures is transported primarily by plastic pipe. There are 743 small and mid-sized metering and pressure regulating stations throughout AUI's distribution network.

AUI currently generates cash from the operation of its mature business. The growth of AUI's business is driven by population growth in established franchises, moderately enhanced by new franchise additions. This growth in services within the AUI franchise areas has averaged approximately 2 percent per year over the last three years.

AUI's market consists primarily of residential and small commercial consumers located in smaller population centres or rural areas of Alberta.

New service sites totalled 1,403 in 2005 and 1,209 in 2004.

Of the 24.1 Petajoules (PJ) of natural gas AUI delivered through its system in 2005, 13.1 PJ were attributed to 61,196 regulated retail service sites, 0.6 PJ to 517 core market service sites that received their gas supply from natural gas retailers, 1.1 PJ to 17 end-use transportation service sites, and 9.3 PJ to four producer transporters. Producer transportation revenues are

primarily derived from capacity charges and do not vary significantly with changes in energy transported. While producer transportation comprises a significant percentage of total throughput, this service produces considerably less revenue than that derived from delivery services.

Regulation

Return on Rate Base

AUI is provincially regulated by the Alberta Energy and Utilities Board (EUB or the Board) as to natural gas tariffs for delivery and transportation service. The EUB also exercises statutory authority over matters such as rate of return on common equity, capital structure, cost of debt and natural gas cost recovery rates.

AUI is allowed the opportunity to earn a return on its rate base intended to provide AUI's shareholders with a fair return on investment and to cover the cost of debt. The rate base is the aggregate of AUI's EUB-approved investment in plant, property and equipment, less accumulated depreciation, plus an allowance for working capital. Net rate base excludes from the rate base no-cost capital, which consists of unamortized contributions in aid of construction and grants from governments and customers. AUI's allowed common equity component is the portion of AUI's capital structure that the EUB deemed to be financed with common equity for tariff purposes. AUI's allowed return on rate base is equal to the sum of (a) its net rate base multiplied by the allowed equity component of 41 percent multiplied by the allowed rate of return on equity, plus (b) its net rate base multiplied by the allowed debt component of 59 percent multiplied by the allowed regulatory rate for debt. Generally, the allowed regulatory rate for debt will equal AUI's actual or forecast weighted average cost of debt.

The allowed rate of return on common equity is set annually by the EUB and is tied to long-term Canada bond rates, and is the same for all utilities regulated by the EUB. The rate of return on common equity in 2005 was 9.5 percent (2004 - 9.6 percent). This rate is adjusted annually by 75 percent of the change in forecast long-term Canada bond yields published in the November Consensus Forecast for the Canadian economy prepared by Consensus Economics Inc., then adjusted for the difference between 10-year and 30-year Canada bond yields for October. The rate for 2006 has been set at 8.93 percent.

AUI's gross rate base was $143.5 million in 2005, compared to $142.5 million in 2004. The net rate base was $92.3 million in 2005, compared to $92.4 million for 2004. The increase in gross rate base was due to normal capital expenditures required to provide service to new service sites and to replace and improve existing facilities, offset in part by amortization of existing plant and facilities. The reduction in net rate base was due to the increase in refundable contributions received in 2005. Refundable contributions occur primarily during the development of new subdivisions to secure the natural gas service to the subdivisions. When sufficient sites have been activated, AUI refunds the contribution and in turn increases the rate base.

AUI's revenue requirement includes forecasts for delivery and other revenue, gas costs, operating costs, depreciation, financing costs, income taxes and return on rate base. Although the approved revenue requirement and subsequent approved rates are based on forecasts, and actual results can differ from these forecasts, no adjustment is made to either the revenue requirement or rates for actual results varying from forecast. Once the rates are approved for a period, all risks and benefits from differences in actual versus forecast deliveries, capital expenditures, numbers of service lines billed, customer usage, operating costs, debt servicing costs and taxes are borne by the utility's shareholders. Actual returns achieved can therefore differ from allowed returns.

Regulatory Status - General Rate Applications (GRA)

AUI filed Phase 1 of its GRA for 2005 and 2006 in the fourth quarter of 2004. The GRA for 2005 and 2006 was determined through an administrative hearing. The public hearing ended on July 20, 2005. On November 22, 2005, the EUB issued a decision directing AUI to provide additional information in support of its application, and to file a compliance filing incorporating the EUB's findings. On December 16, 2005, AUI made its compliance filing as directed by the Board. However, based on the EUB's decision, AUI also filed a Review and Variance application with the EUB on December 21, 2005. AUI has requested a Review and Variance with regard to: (a) capitalization rate for general and administrative expenses; (b) annual commercial customer usage forecast; (c) denial of capitalized overheads related to capital expenditures; and (d) denial of expense amounts related to AUI's short-term incentive program; on the basis that the decision would prejudice AUI and in general, not allow it to earn a fair return. The EUB is currently in the process of determining whether it will accept the Review and Variance application. It is expected that the Board will make this determination in the second quarter of 2006. The Phase 2 application which establishes customer rates and tariffs is expected to be filed by AUI in the second quarter of 2006. A placeholder for the approved revenue requirement is used until a final decision on the 2005/2006 revenue requirements is issued by the EUB.

Regulatory Status - 2005 Debenture Application

On October 31, 2005, AUI applied to the EUB for permission to issue a $30 million, 7.05 percent debenture to AUHI. AUI requires this financing to maintain an appropriate capital structure and support capital investment. AUI also expects the EUB to make a determination on the cost of the debenture. A decision is expected in the second quarter of 2006.

Regulatory Status - Gas Cost Recovery Rates (GCRR)

AUI neither earns profits nor incurs losses from the provision of natural gas to its customers, as the GCRR methodology flows the gas cost through to customers. The GCRR is calculated monthly, with the intention of achieving a zero balance in the deferred gas account by month's end. Each month's filing is reviewed and approved by the EUB.

Regulatory Status - Deregulation

As a result of the deregulation of portions of the Alberta energy industry, natural gas distribution consumers have the option of buying natural gas from retail gas suppliers at a contracted rate or from their delivery utility at the regulated rate. Most consumers in AUI's service areas take natural gas on the regulated rate provided by AUI. As of December 31, 2005, 517 of AUI's 61,730 service sites received their natural gas from a retail gas supplier. The consumers switching to retail gas suppliers have often been associated with organizations such as the Alberta Urban Municipalities Association, grocery store chains, or other business associations.

Competition

The Alberta natural gas distribution market is dominated by a major distributor that serves approximately 85 percent of natural gas consumers. AUI serves approximately 6 percent of Alberta consumers, with the remainder of the market served by member-owned natural gas cooperatives and municipally owned systems.

Although AUI holds a relatively small share of the overall Alberta natural gas distribution market through its franchise agreements, permits and approvals, it has a monopoly on gas distribution within its service areas, except for rural consumers with annual usage of 10,000 gigajoules (GJ) per year or more who have the statutory right to elect to be served by a gas distributor of their choice. Consumers in AUI's franchise areas who have the option to choose their natural gas supplier predominantly choose to be served by AUI.

Strategy

Natural gas maintains a competitive advantage in terms of pricing and environmental benefits when compared to alternative sources of energy in Alberta. While natural gas prices have increased over the past several years, the Corporation anticipates that natural gas will continue to have a competitive advantage over alternative sources of energy due to the pricing of the fuel and environmental benefits and to the costs associated with conversion to an alternative source of energy.

AUI's growth potential is largely defined by infill and expansion opportunities within its franchise areas, with some acquisition opportunities.

Infill growth reflects new demand for space and water heating fuel within AUI's franchise service areas. Infill growth is concentrated in town distribution systems and relates to new homes and commercial developments that require natural gas service. AUI has historically captured, and expects to continue to capture, almost 100 percent of this growth. Overall, AUI serves almost all of the potential market in its existing service areas. Growth in customers in this category has typically been 2 percent per year, a growth rate that management expects will continue.

AUI aggressively pursues opportunities to develop service areas that are not currently served with natural gas. In recent years, these expansion opportunities have typically come with the extension of gas service to small aboriginal communities in northern Alberta. AUI has had success in these areas due to its responsive and cost-efficient approach to delivering natural gas service to these communities. Expansion opportunities that currently exist represent relatively minor asset growth, but AUI remains committed to its strategy of pursuing expansion projects that meet management's target return on investment.

Historically, opportunities to acquire investor-owned, municipally owned or member-owned gas utilities have arisen and AUI has been successful in capitalizing on these opportunities. In 2005 AUI acquired the distribution assets of Orr Mineral Developments Ltd. (Orr) effective July 1, 2005 for $0.2 million. These assets provide natural gas service to approximately 112 service sites in the hamlet of Suffield in southern Alberta. Orr was the last small, investor-owned natural gas distributor in Alberta. Future opportunities for customer growth through acquisition within Alberta are therefore expected to be limited.

While there is no way of predicting if or when distribution-system acquisition opportunities will arise, AUI will pursue opportunities that meet its corporate investment criteria. Any such acquisition opportunities within Alberta are likely to be distribution systems serving less than 1,000 service sites.

HERITAGE GAS LIMITED

All figures shown in this section for Heritage Gas are for 100 percent of the operation unless otherwise noted. Utility Group owns a 24.9 percent interest in Heritage Gas.

In 2002, AUHI diversified geographically by acquiring an interest in Heritage Gas, a greenfield natural gas distribution utility in Nova Scotia. An application for the right to distribute natural gas to certain counties in Nova Scotia was filed on August 16, 2002 by Heritage Gas, which is owned by AltaGas Utility Holdings (Nova Scotia) Inc. (24.9 percent), a subsidiary of AUHI; SaskEnergy Nova Scotia Holdings Ltd. (50.1 percent), a subsidiary of SaskEnergy Incorporated; and Silgascorp Inc. (25.0 percent), a subsidiary of Scotia Investments Limited, a private investment holding company. The Nova Scotia Utility and Review Board (NSUARB) rendered a decision on February 7, 2003, granting Heritage Gas a full regulation class franchise for a period of 25 years. Heritage Gas has the franchise to distribute natural gas to all or part of six counties in Nova Scotia, including the Halifax Regional Municipality.

On December 31, 2005, Heritage Gas' distribution system consisted of approximately 84 kilometres of pipeline infrastructure in the Halifax Regional Municipality and Amherst, which provides access to approximately 2,500 potential customers. In 2005 the distribution system more than tripled in size, with a capacity of 30,000 GJ/day at the end of the year.

Heritage Gas provides Nova Scotia consumers with the opportunity to switch heating fuel sources, mainly from oil or electricity, to natural gas. At the end of 2005, Heritage Gas had installed service lines to approximately 505 customers, of which 369 were activated by year-end, and had delivered 140,136 GJ of gas in 2005 compared to 13,907 GJ in 2004. In addition, it had signed commitments from another 166 customers in the Halifax Regional Municipality and Amherst.

Prior to proceeding with construction in the Town of Amherst, Heritage Gas received approximately 150 customer commitments to convert to natural gas, meeting the economic feasibility and revenue requirement tests for construction of natural gas service. By December 31, 2005, an additional 74 customers in Amherst had signed commitments to convert to natural gas. Natural gas service to the Town of Amherst began September 10, 2005.

Regulation

The NSUARB has granted a full regulation class franchise to Heritage Gas and approved a regulated rate of return for Heritage Gas of 13 percent on a 45 percent equity component and an 8.75 percent cost of debt on a 55 percent debt component of its capital structure.

On December 19, 2003, the NSUARB issued an interim approval of a schedule of rates, tolls and charges and a license to operate. Heritage Gas activated its natural gas distribution system on December 20, 2003. A full general tariff application for test years 2004 to 2008 was filed on March 8, 2004 and was approved by the NSUARB on October 26, 2004, thus establishing the rates to be charged to four classes of customers, depending on consumption levels. The next rate application is anticipated in 2008 for test years commencing with 2009.

Heritage Gas' rate base was $28.3 million at the end of 2005 and $16.1 million at the end of 2004. The increase in rate base was due to growth in the distribution system to provide natural gas distribution service to new customers.

Heritage Gas has approval from the NSUARB to use a Revenue Deficiency Account (RDA). The RDA is based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. In Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate. As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return and the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

Competition

Due to its short time in the marketplace, Heritage Gas currently has a very small share of the Nova Scotia energy end-use market. The dominant energy source for space heating is oil, with over 50 percent of the market share. Most major industrial and institutional consumers use Bunker C heavy fuel oil, while smaller commercial and residential consumers use No. 2 fuel oil. Electricity, primarily used by residential consumers, has the second largest market share, with over 25 percent of the market share. This is followed by propane and wood fuel, which are mainly used by smaller residential customers. Natural gas is fifth in market share. Natural gas is priced competitively against all options except Bunker C heavy fuel oil.

Strategy

Natural gas is more efficient and provides environmental advantages when compared to the other forms of fuel in the market and there are government incentives in place to reduce the cost of conversion to natural gas for residential and commercial customers. As a result, the Corporation believes that Heritage Gas will continue to expand its customer service base within the franchise areas it has been granted as it is focused on building momentum for consumers to switch heating fuel sources in Nova Scotia's market place.

Heritage Gas is a new business, and will require capital investment over the next five years as the natural gas distribution infrastructure is constructed to provide new services to customers in its franchise areas. The management of Utility Group expects that Heritage Gas will provide growth in net income for the Corporation over the next five years as this new natural gas distribution business matures.

At the end of 2005, there were approximately 2,500 commercial energy consumers with access to the Heritage Gas distribution system. Although the current size of the market is relatively small, Heritage Gas is contemplating numerous future development projects for the Greater Dartmouth and Amherst areas, including Burnside Industrial Park, as well as an expansion to the Halifax International Airport and crossing the Halifax Harbour to serve the Halifax Peninsula. Heritage Gas fully expects to pursue these and other future growth opportunities that are contiguous to its current operations.

INUVIK GAS LIMITED

All figures shown in this section for Inuvik Gas are for 100 percent of the operation. Utility Group owns a one-third interest in Inuvik Gas.

Inuvik Gas is a territorially regulated natural gas distribution utility that distributes natural gas in the Town of Inuvik in the Northwest Territories. Inuvik Gas currently generates cash from the operation of its mature business.

Inuvik Gas is the first Canadian commercial natural gas development project north of the Arctic Circle. Inuvik Gas is equally owned by Utility Group, the Inuvialuit Petroleum Corporation and IPL Holdings Inc.

On December 1, 1997 Inuvik Gas signed an exclusive franchise agreement with the Town of Inuvik to distribute and sell natural gas within the Town. The 15-year initial term of the franchise began with the commencement of deliveries in August 1999 and can be renewed by mutual agreement for a further 10-year period.

The Inuvik Gas distribution system consists of approximately 46 kilometres of pipe and provides the Town of Inuvik with an economical and environmentally preferable alternative energy source for commercial and residential heating. Prior to Inuvik Gas delivering natural gas, diesel fuel brought in from Edmonton, Alberta was the town's primary energy source. Today, natural gas serves approximately 70 percent of the town's heating demand.

Several of the government buildings (including public housing, schools, the hospital and the college) were converted to natural gas service during the initial startup of the distribution system in the fall of 1999. Other commercial and residential buildings have subsequently been converted, bringing the total number of buildings using natural gas service at December 31, 2005 to 755, up from 705 at December 31, 2004. The annual average volume of natural gas distributed in 2005 was 851 GJ/day, versus 869 GJ/day in 2004. Ambient temperature in 2005 was 10 percent warmer than in 2004, resulting in lower volumes of gas delivered in 2005 compared to 2004.

Regulation

Inuvik Gas is regulated by the Northwest Territories Public Utilities Board (NWTPUB) and is presently exempt from full regulation as a public utility. The NWTPUB is satisfied that competition for alternative fuels in Inuvik is sufficient to negate the need for full regulation. As a result, Inuvik Gas is subject to regulation on a complaints basis and is required to file its rates and terms and conditions of service with the NWTPUB when they are revised. The NWTPUB may review Inuvik Gas' business operations, earnings and accounts as it deems necessary.

Competition

Inuvik Gas reviews the rates charged to customers regularly, and establishes natural gas rates that are competitive with P50 heating oil, which is the primary alternative to natural gas in the Town of Inuvik. Since its rates are market-based, as opposed to the more traditional cost of service, Inuvik Gas has the opportunity to earn a higher return in times of high P50 prices and, conversely, may not recover its cost of operations in periods of low P50 prices. This pricing approach was deemed appropriate at the commencement of Inuvik Gas' business to provide the incentive for customers to convert to natural gas from P50 heating oil. Inuvik Gas will continue to assess whether this is appropriate in the future.

Strategy

Inuvik Gas' prime focus continues to be on growth. Encouraging larger commercial customers to convert to natural gas is a priority, as these loads not only increase sales but are less sensitive to weather and thus improve cash flow during the summer months. Energy demand growth in Inuvik is primarily due to economic activity associated with the proposed Mackenzie Gas Project. Such growth would likely first lead to more services off the existing distribution system and then to expansion of the distribution system.

Management believes that recent energy price volatility is likely to remain, and Inuvik Gas will adjust its rates accordingly to provide a reasonable return while being competitive with P50 heating oil.

ALTAGAS UTILITY GROUP'S FINANCIAL RESULTS

Utility Group's financial information and the related discussion of financial results in the MD&A for the period ended December 31, 2005 reflect its financial results since Utility Group's incorporation on July 6, 2005. Utility Group commenced business operations with the November 17, 2005 acquisition of AUHI, and the operating results of AUHI are consolidated from that date forward. The operating businesses of Utility Group are natural gas distribution utilities that are highly seasonal, as revenues are primarily based on the demand for space heating in the winter months, usually from November to March. Natural gas delivered during the winter season typically accounts for approximately two-thirds of annual natural gas delivery revenue, resulting in strong first and fourth quarter results and second and third quarter losses.

Consolidated Financial Results *($ millions, except per share amounts or otherwise noted)*	July 6 - December 31, 2005[1]
Revenue	30.5
Net revenue[2]	5.6
EBITDA[2]	2.9
Operating income[2]	2.0
Net income	1.3
Funds generated from operations[2]	2.0
Total assets	178.9
Current liabilities	33.2
Long-term liabilities	83.1
Net additions to capital assets	0.5

Consolidated Financial Results (*continued*) (*$ millions, except per share amounts or otherwise noted*)	July 6 - December 31, 2005 (1)
Shares outstanding (thousands)	
Weighted average shares outstanding (basic)	8,190
December 31, 2005	8,190
Net income per share(3)	$0.15

(1) The period ended December 31, 2005 includes operations of all acquired businesses since the completion of the acquisition of AUHI on November 17, 2005.

(2) Non-GAAP financial measure. See discussion in "Non-GAAP Financial Measures" section of this MD&A.

(3) Net income per share was calculated using the average number of shares outstanding from the period November 17 to December 31, 2005 of 8,189,905 as there was no operating income prior to November 17, 2005.

Net income for the six-week period ended December 31, 2005 was $1.3 million, or $0.15 per share. Net income comprised operating income of $2.0 million, partially offset by $0.4 million of interest expense and $0.3 million of income taxes.

Utility Group's revenues for the period ended December 31, 2005 were $30.5 million. All revenues are derived from the underlying natural gas distribution businesses. AUI contributed the majority of revenues of $29.9 million and Heritage Gas and Inuvik Gas each contributed approximately $0.3 million.

Cost of natural gas for Utility Group for the period ended December 31, 2005 was $24.9 million. AUI's cost of sales was $24.5 million and Heritage Gas and Inuvik Gas each had approximately $0.2 million in gas purchases.

The Corporation reported net revenue, which is revenue less the cost of natural gas purchased for resale, of $5.6 million for the period ended December 31, 2005. The operating businesses of AUI, Heritage Gas and Inuvik Gas contributed $5.3 million, $0.2 million and $0.1 million, respectively.

Operating and administrative expenses for the period ended December 31, 2005 were $2.7 million. Operating and administrative costs of the operating businesses accounted for $2.3 million and corporate administrative costs were $0.4 million. Corporate administrative costs included annual costs for public company disclosure and reporting, and administrative payroll and benefit costs.

Utility Group's depreciation and amortization expenses for the period ended December 31, 2005 were $0.9 million, all of which related to the property, plant and equipment of the operating entities.

Utility Group's interest expense for the period ended December 31, 2005 was $0.4 million. Average debt outstanding for the period was approximately $75.0 million and the average interest rate was 4.8 percent.

Utility Group's income tax expense for the period ended December 31, 2005 was $0.3 million. Current income tax expense was recorded primarily by AUI, which under utility board regulation, accounts for income tax expense using the taxes payable method.

Non-GAAP Financial Measures

Utility Group provides financial measures in this Management's Discussion and Analysis that do not have a standardized meaning prescribed by Canadian generally accepted accounting principles (GAAP). These non-GAAP financial measures may not be comparable to similar measures presented by other corporations. The purpose of these financial measures and their reconciliation to GAAP financial measures is shown below.

Non-GAAP information is also provided for AUHI for 2005 and for historical comparative periods.

	Utility Group(1)	AUHI		
Net Revenue	July 6 - December 31,	2005(2)		
($ millions)	2005	(unaudited)	2004(3)	2003(3)
Net revenue	5.6	34.3	30.7	30.6
Add: Cost of natural gas	24.9	109.6	94.0	98.9
Revenue (GAAP financial measure)	30.5	143.9	124.7	129.5

(1) Financial information for the period ended December 31, 2005 from the audited Consolidated Financial Statements of Utility Group.

(2) The selected AUHI financial information for the year ended December 31, 2005 is unaudited. An audit of AUHI was not required for the year ended December 31, 2005. From November 17, 2005 the results of AUHI are consolidated in the audited financial statements of Utility Group.

(3) The selected AUHI financial information for the years ended December 31, 2004 and 2003 was extracted from audited Consolidated Financial Statements of AUHI included in the Prospectus filed by Utility Group on November 4, 2005.

Management believes that net revenue better reflects performance than does revenue. Since changes in the market price of natural gas purchased for resale affect both revenue and the cost of natural gas, net revenue better reflects growth in the business.

	Utility Group(1)	AUHI		
Operating Income	July 6 - December 31,	2005(2)		
($ millions)	2005	(unaudited)	2004(3)	2003(3)
Operating income	2.0	8.6	7.7	8.8
Deduct: Interest expense	0.4			
Income taxes(4)	0.3			
Net income (GAAP financial measure)	1.3			

(1) Financial information for the period ended December 31, 2005 from the audited Consolidated Financial Statements of Utility Group.

(2) The selected AUHI financial information for the year ended December 31, 2005 is unaudited. An audit of AUHI was not required for the year ended December 31, 2005. From November 17, 2005 the results of AUHI are consolidated in the audited financial statements of Utility Group.

(3) The selected AUHI financial information for the years ended December 31, 2004 and 2003 was extracted from audited Consolidated Financial Statements of AUHI included in the Prospectus filed by Utility Group on November 4, 2005.

(4) Income taxes consist of current and future income taxes.

Operating income is used by management to measure operating performance without reference to financing decisions and income tax impacts, which are not controlled by the operating businesses.

	Utility Group(1)	AUHI		
EBITDA	July 6 - December 31,	2005(2)		
($ millions)	2005	(unaudited)	2004(3)	2003(3)
EBITDA	2.9	16.1	14.3	15.3
Deduct: Depreciation and amortization	0.9			
Interest expense	0.4			
Income taxes(4)	0.3			
Net income (GAAP financial measure)	1.3			

(1) Financial information for the period ended December 31, 2005 from the audited Consolidated Financial Statements of Utility Group.

(2) The selected AUHI financial information for the year ended December 31, 2005 is unaudited. An audit of AUHI was not required for the year ended December 31, 2005. From November 17, 2005 the results of AUHI are consolidated in the audited financial statements of Utility Group.

(3) The selected AUHI financial information for the years ended December 31, 2004 and 2003 was extracted from audited Consolidated Financial Statements of AUHI included in the Prospectus filed by Utility Group on November 4, 2005.

(4) Income taxes consist of current and future income taxes.

Earnings before interest, taxes, depreciation and amortization (EBITDA) is used by management to understand the ability of the business to generate cash and its ability to cover interest payments, fund capital expenditures and pay cash income taxes.

Funds Generated From Operations ($ millions)	Utility Group[1] July 6 - December 31, 2005
Funds generated from operations	2.0
Add: Net change in non-cash working capital	(4.7)
Cash from operations (GAAP financial measure)	(2.7)

(1) Financial information for the period ended December 31, 2005 was extracted from the audited Consolidated Financial Statements of Utility Group.

Funds generated from operations are provided to assist in determining the Corporation's ability to generate cash from operations, after interest and taxes, without regard to changes in non-cash working capital in the period.

ALTAGAS UTILITY HOLDINGS INC.'S RESULTS OF OPERATIONS

The businesses acquired on November 17, 2005 by Utility Group have operated for many years. Management believes that information regarding the results of operations for the years 2003 to 2005 would be useful in assisting the reader to assess the operations of Utility Group. Selected financial information is provided for AUHI, the company acquired by Utility Group that owns 100 percent of AUI, a 24.9 percent interest in Heritage Gas and a one-third interest in Inuvik Gas.

Selected Financial and Operating Information of AltaGas Utility Holdings Inc.

($ millions, except as otherwise noted)	2005	2004[1]	2003[1]
	(unaudited)		
Revenue	144.0	124.7	129.5
Net revenue[2]	34.3	30.7	30.6
EBITDA[2]	16.1	14.3	15.3
Operating income[2]	8.6	7.7	8.8
Deliveries (PJ)[3]			
End-use	13.8	14.7	14.9
Transportation	10.4	11.6	10.3
	24.2	26.3	25.2
Customers at period end[3]	62,854	61,294	60,230
Degree day variance (percent)[4]	(5.0)	2.6	6.9

(1) The financial information for the years ended December 31, 2004 and 2003 was extracted from the audited Consolidated Financial Statements of AUHI, except for non-GAAP measures included in the Prospectus filed by Utility Group on November 4, 2005.

(2) Non-GAAP financial measure. See discussion in "Non-GAAP Financial Measures" section of this MD&A.

(3) All figures except degree day variance reflect AUHI's 100 percent interest in AUI, and its proportionate share of Heritage Gas (24.9 percent) and Inuvik Gas (one-third), and are unaudited.

(4) Degree day variance is a measure of how hot or cold the climatological areas in which AUI operates were over the applicable period expressed in relation to normal degree days in that period. A degree day is the cumulative extent to which the daily mean temperature falls below 18 degrees Celsius. Normal degree days are based on a 20-year rolling average. Positive variances are favourable. See "Sensitivity Analysis" for a discussion of the impact of degree days on AUI's net income.

Year-ended December 31, 2005 (unaudited) Compared to December 31, 2004

Results of operations are presented for AUHI, which was acquired by Utility Group on November 17, 2005. The results of operations of AUHI provide the reader with operational and financial information in order to evaluate the underlying businesses of Utility Group.

AUHI's operating income for the year ended December 31, 2005 was $8.6 million, compared to $7.7 million in 2004. In 2004, AUI recorded a charge to income of $0.7 million related to regulatory adjustments from 2003. At AUI, $4.0 million of the increase was due to rate increases and $0.4 million was due to growth. These increases were partially offset by a $0.7 million decrease due to warmer weather compared to 2004, a $0.3 million decrease due to conservation, and higher operating expenses and amortization of $1.5 million and $1.2 million, respectively. Growth at Heritage Gas contributed an additional $0.2 million to operating income in 2005 compared to 2004.

Revenue for the year ended December 31, 2005 was $144.0 million, an increase of $19.3 million from 2004. Fluctuations in revenue are mainly due to the cost of natural gas, which flows through to customers, and the volumes delivered. $18.3 million of the increase in revenue for 2005 was attributable to AUI. AUI's revenue included $19.9 million due to higher natural gas costs, $4.0 million due to approved rate increases for 2005, and $1.0 million due to growth, partially offset by a $6.6 million reduction in revenue due to 6 percent warmer weather and increased conservation. The cost of natural gas and growth in the business at Heritage Gas contributed $1.0 million to the revenue increase.

Cost of natural gas for the year ended December 31, 2005 was $109.7 million, an increase of $15.7 million from 2004. $20.0 million of the increase was due to the increase in natural gas prices and $0.6 million was due to increased deliveries due to growth, partially offset by $5.4 million due to the decrease in deliveries as a result of the warmer weather and increased conservation in the AUI franchise areas. The increase in cost of natural gas at Heritage Gas and Inuvik Gas was $0.4 million and $0.1 million, respectively.

Net revenue for the year ended December 31, 2005 was $34.3 million, an increase of $3.7 million from 2004. AUI contributed $3.2 million of the increase, with $3.8 million from rate increases and $0.4 million due to growth, partially offset by a $0.7 million decrease due to warmer weather, and $0.3 million due to increased conservation. Net revenue at Heritage Gas was $0.5 million higher in 2005 compared to 2004. Net revenue is unaffected by changes in natural gas prices as the cost of natural gas is recovered from customers.

Operating expenses for the year ended December 31, 2005 were $18.2 million, an increase of $1.8 million from 2004. The increase was the result of higher regulatory expense of $0.6 million, higher general increases in the prices of goods and services of $0.5 million, costs incurred to meet new certification requirements of the Canadian Securities Administrators of $0.3 million and a $0.4 million increase in business activities.

EBITDA for the year ended December 31, 2005 was $16.1 million, an increase of $1.8 million from 2004. Higher net revenue was partially offset by increases in operating expenses.

Depreciation and amortization expenses for the year ended December 31, 2005 were $7.5 million, compared to $6.6 million in 2004. The increase resulted from higher capital asset balances and changes in depreciation rates as approved by the EUB based on a recent depreciation study for AUI.

AUI's capital expenditures, net of contributions in aid of construction were $9.5 million and $8.6 million in 2005 and 2004, respectively. In 2005, $2.6 million related to new business (2004 - $3.2 million), $3.9 million related to system betterment (2004 - $3.4 million) and $3.0 million related to general plant additions and replacements (2004 - $2.0 million).

AUHI's share of capital expenditures for delivery system expansion at Heritage Gas was $4.3 million in 2005 compared to $2.3 million in 2004.

UTILITY GROUP'S FINANCIAL POSITION

On November 17, 2005 a series of transactions described earlier in this MD&A resulted in a substantive change in ownership of AUHI. The purchase of AUHI by Utility Group is accounted for as a business combination at fair market value. AUHI owns 100 percent of AUI, 24.9 percent of Heritage Gas and one-third of Inuvik Gas.

Purchase consideration for the acquisition has been allocated to the underlying tangible and intangible assets based on management's estimates of their fair value. In management's assessment, the assumptions used to determine the allocation are reasonable.

The following table outlines the significant changes in the consolidated balance sheets of Utility Group as at December 31, 2005 as compared to inception at July 6, 2005 and as at the date of acquisition of AUHI.

($ millions) Balance sheet items	July 6, 2005	Effective November 17, 2005 (unaudited)	As at December 31, 2005 (unaudited)	Explanation
Current assets[(1)]	-	28.6	33.6	The increase in current assets was due to the acquisition of AUHI on November 17, 2005 and increased accounts receivable since acquisition.
Property, plant and equipment (net of accumulated depreciation)	-	105.1	107.0	The increase in property, plant and equipment was due to the acquisition of AUHI on November 17, 2005. Since the acquisition of AUHI Utility Group acquired $2.0 million in PP&E.
Goodwill	-	31.6	31.6	Goodwill was established due to the excess of the cost of the purchase of AUHI over the fair market value assigned to assets acquired and liabilities assumed.
Other assets	-	6.1	6.7	The increase in other assets was due primarily to the RDA and deferred bank charges.
Current liabilities	-	(31.3)	(33.2)	The increase in current liabilities was due to the acquisition of AUHI on November 17, 2005 as well as higher accounts payable since acquisition.
Long-term debt	-	(4.7)	(81.0)	The increase in debt was due to borrowings from credit facilities to assume AUHI's debt due to its previous parent and to fund ongoing working capital requirements.
Other long-term liabilities	-	(2.1)	(2.1)	The increase in other long-term liabilities was due to the acquisition of AUHI. It comprised customer deposits and future income tax liability.
Share capital[(1)]	-	(58.5)	(61.3)	The increase in share capital resulted from share issuance of 7,799,895 shares in exchange for the outstanding shares of AUHI and the issue of 390,000 common shares in an Initial Public Offering for net proceeds of $2.7 million.
Retained earnings	-	-	(1.3)	The increase in retained earnings was the net income from 45 days of AUHI ownership.

(1) Utility Group was established with $100 cash and $100 share capital.

FINANCIAL INSTRUMENTS

Financial instruments, which subject the Corporation to credit risk, consist primarily of accounts receivable. Accounts receivable credit risk is reduced due to a large and diversified customer base, customer deposits for at-risk customers and the ability to recover the majority of uncollectible accounts through regulator-approved customer rates.

The Corporation draws on its revolving term credit facility to fund its operations with floating rate debt, which exposes Utility Group to changes in interest payments due to fluctuations in interest rates.

LIQUIDITY AND CAPITAL RESOURCES

Utility Group expects that 2006 funds from operations will be sufficient to meet the majority of its budgeted maintenance and growth capital. The balance of its budgeted growth capital and a certain amount of unbudgeted acquisitions will be financed through existing bank lines. Should larger acquisitions require financing beyond existing lines, management believes equity and debt capital markets could be accessed to provide additional financing. At this time, Utility Group does not reasonably expect any presently known trend or uncertainty to affect the Corporation's ability to access its anticipated sources of cash.

The following table outlines the cash position of Utility Group as at December 31, 2005:

($ millions)	December 31, 2005
Cash, beginning of year	-
Operating activities	(2.7)
Investing activities	(75.5)
Financing activities	78.9
Cash, end of year	0.7

Cash from Operations

Cash used from operations of $2.7 million was based on funds generated from operations of $2.0 million for the period from November 17 to December 31, 2005. Funds generated from operations were reduced by the net change in non-cash working capital of $4.7 million.

Investing Activities

The November 17, 2005 assumption of AUHI debt for $74.7 million cash comprised the majority of the $75.5 million of cash flow used in investing activities net of $2.5 million in cash acquired. The balance was primarily expenditures on property, plant and equipment for the natural gas distribution systems of AUHI for the period after November 17, 2005 and reimbursement of contributions in aid of construction.

Financing Activities

Cash generated by financing activities was $78.9 million, $76.0 million of which was borrowed under bank lines, and $2.7 million of which was received on the issuance of common shares.

Capital Resources

The Corporation believes that its access to debt and equity markets, unused bank credit facilities and its funds generated from operations will provide sufficient capital resources and liquidity to fund existing operations and certain acquisition and expansion opportunities in 2006.

The use of debt or equity funding is based on the Corporation's target capital structure, which is determined by considering the norms and risks associated with each of its business components and segments and capital structures deemed by the EUB and the NSUARB. Utility Group targets a debt-to-total capitalization ratio of between 50 and 60 percent. The Corporation's debt-to-total capitalization ratio as at December 31, 2005 was 56.4 percent.

Utility Group funds its long-term borrowing requirements with credit facilities from a syndicate of Canadian chartered banks, from shareholders of proportionately consolidated subsidiaries, and from the Province of Nova Scotia.

Credit Facilities *($ millions)*	Drawn at December 31, 2005
Revolving, term credit facility	76.1
Promissory note issued 2004 to other shareholders of Heritage Gas	3.3
Loan from Province of Nova Scotia	1.4
Promissory note issued 2002 to other shareholders of Inuvik Gas	0.2
	81.0

Effective November 17, 2005 the Corporation entered into banking arrangements as follows:

- An extendible revolving credit facility with a syndicate of Canadian chartered banks for $100.0 million under which prime rate loans, USBR loans, letters of credit, bankers' acceptances and LIBOR loans may be drawn, repayable on November 17, 2008. The maturity date is extendible upon consent of each lender for further successive one-year periods. At December 31, 2005, bankers' acceptances with short-term maturities of $76.1 million had been issued.

- A demand operating credit facility with a Canadian chartered bank for $10.0 million under which prime rate loans, USBR loans, letters of credit, bankers' acceptances and LIBOR loans may be obtained, repayable in full upon demand. As of December 31, 2005, there had been no draws against this facility.

Utility Group has not been rated by any credit agencies, nor does the Corporation expect to be rated.

All of the borrowing facilities have financial tests and other covenants customary for these types of facilities, which must be met at each quarter-end. At December 31, 2005 Utility Group was in compliance with these covenants.

Servicing and Repayment of Debt

In November 2005, Utility Group completed an equity financing, selling 390,000 shares under a public equity offering. The net proceeds of $2.7 million were used by the Corporation to repay long-term debt and for working capital. Utility Group expects to meet interest payments on outstanding indebtedness from internally generated funds, but may rely upon the proceeds of new financings to meet its principal debt obligations when due.

Utility Group Contractual Obligations

The Corporation and its operating businesses have contractual obligations in the normal course of business for the next five years and for the period thereafter.

		Payments due by period			
Contractual Obligations		Less than			After
($ millions)	Total	1 year	1-3 years	4-5 years	5 years
Long-term debt[1]	81.0	-	76.3	3.3	1.4
Operating leases	0.18	0.1	0.08	-	-

(1) See Notes to the Consolidated Financial Statements.

The Corporation purchases gas for resale from the Ikhil Joint Venture under a 15-year gas purchase agreement at a price adjusted annually on August 1 based on the change in the average price of high sulphur diesel at Edmonton.

Capital Expenditures

In 2006 Utility Group expects capital expenditures at AUI, net of contributions in aid of construction, to approximate $7.9 million. At Heritage Gas the total expected capital expenditure for 2006 is approximately $13.0 million, with Utility Group's share being $3.2 million.

Capital Stock

The Corporation issued 7,799,895 common shares in exchange for the outstanding shares of AUHI. The Corporation also issued 390,000 common shares in an Initial Public Offering for net proceeds of $2.7 million. Utility Group has not paid dividends to its shareholders, but the Board of Directors declared a dividend payable on April 17, 2006 to shareholders of record on March 31, 2006.

OFF-BALANCE SHEET ARRANGEMENTS

Utility Group is not party to any contractual arrangement under which an unconsolidated entity may have any obligation under certain guarantee contracts, a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets. Utility Group has no obligation under derivative instruments, nor a material variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures designed to ensure that information required to be disclosed in reports filed or submitted under the *Securities Act* (Ontario) is accumulated and communicated to management, including the President and Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In accordance with Multilateral Instrument 52-109 (Certification of Disclosure in Issuers' Annual and Interim Filings), an evaluation was conducted under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report. Based on that evaluation, the President and Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures were effective as of December 31, 2005 to provide reasonable assurance that information required to be disclosed is recorded, processed, summarized, and reported within the time periods specified in the Ontario Securities Commission's rules and forms.

TRANSACTIONS WITH RELATED PARTIES

For the period November 17 to December 31, 2005, Utility Group purchased natural gas from AltaGas Income Trust for $25.7 million. AUI also paid the Trust $0.1 million for operating services. The Trust purchased transportation services from Utility Group for $0.1 million.

For the period November 17 to December 31, 2005, Utility Group purchased natural gas from the Ikhil Joint Venture for $0.2 million and the Joint Venture in turn paid to Utility Group $46,000 for administration, management and other services.

There is an Administrative Service Agreement between the Trust and Utility Group whereby the Trust provides certain administrative and support services to Utility Group until December 31, 2007, and which may be extended by mutual agreement of the parties. The Trust will receive $30,000 per year for the services provided.

See Notes to the Consolidated Financial Statements.

CRITICAL ACCOUNTING ESTIMATES

Since a determination of the value of many assets, liabilities, revenues and expenses is dependent upon future events, the preparation of Utility Group's consolidated financial statements requires the use of estimates and assumptions which have been made using careful judgment by management. Management has discussed the development and selection of these critical accounting estimates with the Audit and Governance Committee of the Board of Directors and its independent auditors, and has reviewed and approved Utility Group's disclosure relating to critical accounting estimates in this MD&A.

Utility Group's significant accounting policies are described in the Notes to the audited Consolidated Financial Statements of Utility Group for the period ended December 31, 2005. The most critical of these policies with respect to estimates are those related to rate regulation, determination of pension and other employee benefits, amortization and depreciation expense, goodwill impairment assessment and asset retirement obligation. Actual results may differ from these estimates.

The financial statements for the period have been prepared in accordance with the accounting policies described in the notes thereto. The main areas where changes in estimates and assumptions could have a material impact on financial results in future periods are as follows:

RATE REGULATION

AUI's and Heritage Gas' accounting policies are subject to examination and approval by their respective regulators. As a result, their rate-regulated accounting policies may differ from accounting policies for non rate-regulated companies. These differences occur when the regulators render their decisions on rate applications and generally involve the timing of revenue and expense recognition.

The accounting for these items is based on management's expectation of the future actions of the regulators. For example, AUI does not record future income taxes as the taxes payable method is prescribed by the EUB for rate-making purposes and there is reasonable expectation that the EUB will provide for all such future income taxes to be recovered in rates when they become payable. Similarly, the deferral of differences between the amounts included in rates and the actual experience for specified expenses is based on management's expectation that the regulators will approve the refund to, or recovery from, ratepayers of the deferred balance.

If the regulators' future actions are different from management's expectations, the timing and amount of the recovery of liabilities and refund of assets, recorded or unrecorded, could be significantly different from that reflected in the financial statements.

PENSION AND EMPLOYEE BENEFITS

AUI provides post-retirement benefits to employees, including a defined-benefit pension plan. The cost of providing these benefits is dependent upon many factors that result from actual plan experience and assumptions of future experience.

The benefit cost and accrued benefit obligation for employee future benefits included in annual compensation expenses are affected by employee demographics, including age, compensation levels, employment periods, contribution levels and earnings on plan assets.

Changes to the provisions of the plan may also affect current and future pension costs. Benefit costs may also be significantly affected by changes in key actuarial assumptions, including anticipated rates of return on plan assets and discount rates used in determining the accrued benefit obligation and benefit costs.

The pension plan assets include mainly equity and fixed income investments. Fluctuations in actual equity market returns and changes in interest rates may result in increased or decreased pension costs in future periods.

AMORTIZATION AND DEPRECIATION EXPENSE

Amortization and depreciation of property, plant and equipment are provided on a straight-line basis over the estimated useful lives of the assets. Depreciation rates include an estimate of future removal and site restoration costs, as approved by the regulators. Actual removal and site restoration costs are charged to accumulated depreciation in accordance with regulatory treatment.

These depreciation rates are determined based on periodic depreciation studies conducted by an external consultant that makes an objective assessment of the useful lives of property, plant and equipment in use. The last such study in respect of AUI was completed in 2004 and was filed as part of AUI's 2005/2006 GRA.

GOODWILL IMPAIRMENT ASSESSMENT

Goodwill represents that portion of the purchase price of the shares of AUHI, purchased on November 17, 2005, which was in excess of the fair market value of the assets acquired. Goodwill will be tested at least annually for impairment by comparing the fair value of AUHI with its book value. Impairment charges will be recorded as impairment estimates are determined.

ASSET RETIREMENT OBLIGATION

Certain of the Corporation's long-lived tangible assets are expected to have future legal obligations upon retirement. However, the Corporation has not recorded an asset retirement obligation due to the indeterminate life of its distribution and supply network and corresponding indeterminable timing and scope of asset retirements. An asset retirement obligation and offsetting capital asset will be recognized when the timing and amount can be reasonably estimated.

FOURTH QUARTER HIGHLIGHTS

Since the acquisition was completed and Utility Group commenced operations on November 17, 2005, separate fourth quarter highlights are not presented because the Results of Operations for the period November 17 to December 31, 2005 are the same as those for the quarter.

AUHI SUMMARY OF EIGHT MOST RECENTLY COMPLETED QUARTERS

Utility Group began operations on November 17, 2005. In order to provide additional information regarding the underlying businesses acquired by Utility Group, the information is provided for AUHI's current and historical results to allow the reader to evaluate the ongoing operations of the businesses now owned by Utility Group.

	AUHI							
(unaudited)	2005				2004			
($ millions)	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Net revenue	9.9	6.0	6.7	11.8	9.7	5.1	6.2	9.7
Operating income	3.6	(0.4)	0.1	5.3	3.9	(0.3)	0.3	3.9

AUHI's business exhibits strong seasonality, as reflected in the results of the past eight quarters. AUHI distributes natural gas primarily for heating purposes, and therefore reports higher sales volumes, revenue and earnings in colder periods than in warmer periods. Higher revenues are received in the first and fourth quarters, due to the high physical volumes of gas delivered during the winter heating season. Costs, other than the cost of gas, are generally incurred uniformly over the year. This typically results in profitable first and fourth quarters and net losses in the second and third quarters.

AUHI's results are also sensitive to differences in weather from "normal", due to the EUB and NSUARB's use of a rolling multi-year average temperature to set AUI's and Heritage Gas' rates. As shown in "Sensitivity Analysis", a 10 percent change in annual weather from normal can result in a change in net income of approximately $0.8 million. AUHI receives the benefit or incurs the loss related to variances in volumes due to weather, conservation or other factors that impact customer usage.

Regulatory decisions are a third factor that tend to affect the pattern of AUHI results. Both AUI and Heritage Gas must estimate revenue until these amounts are finalized pursuant to regulatory proceedings, which can have a significant time lag.

Significant items which impacted the quarterly earnings were as follows:

- In the first quarter of 2005, AUI accrued revenue related to a rate increase application. The revenue accrued in the first quarter exceeded the increased costs incurred in the period, resulting in a $1.0 million increase in operating income from same period in 2004. The remaining increase was due to the $0.7 million charge to operating income in the first quarter of 2004 that was related to 2003, offset by a $0.4 million reduction in operating income due to warmer weather in the first quarter of 2005 compared to the first quarter of 2004.

- In the second quarter of 2005, AUI accrued revenue related to a rate increase application. The increased costs in 2005 over 2004 exceeded the revenue accrued in the second quarter by $0.2 million. The balance of the decrease in operating income for the quarter as compared to the same period last year was a $0.1 million reduction due to the warmer weather in the second quarter of 2005 as compared to the same period in 2004.

- In the third quarter of 2005, AUI accrued revenue related to a rate increase application. The increased costs in 2005 over 2004 exceeded the revenue accrued in the third quarter by $0.3 million.

- In the fourth quarter of 2005, the EUB issued Decision 2005-127 relating to AUI's 2005/2006 GRA. AUI reduced the accrued rate increase adjustments in accordance with the compliance filing. Also in the quarter, the weather was 14 percent warmer than normal, negatively impacting operating income by $0.7 million.

RISKS AND UNCERTAINTIES

In the natural gas distribution business, where parties are subject to return on rate base regulation, rates are set to allow the regulated entity the opportunity to cover its costs and earn a reasonable return on a set capital structure. There is no guarantee that the entity will earn its allowed return because rates are set to cover future estimated costs and estimated demand is based on normal weather conditions. The entity's actual revenues may be more or less than forecast due to variations from normal weather, conservation and other factors which impact customer usage. Expenses and other revenues may also be higher or lower than forecast. Financial results for Utility Group are subject to a variety of risks including: regulation; franchise renewal; gas demand (including relating to weather, customer additions/mix, alternative energy sources and climate change); gas supply; environmental and safety; competition; physical; insurance; credit; contingencies; human resources; conflicts of interest; access to additional financing; and decommissioning, abandonment and reclamation costs.

SENSITIVITY ANALYSIS

As discussed previously, Utility Group has no full-year comparative financial information on which to perform sensitivities due to the period ended December 31, 2005 only including operations since November 17, 2005. However, the acquired businesses have historical information that management believes may assist the reader in assessing the impact that various factors have on the operations of the acquired business. The following sensitivities illustrating the anticipated effects of economic and operational changes on AUHI's 2005 net income are provided for information purposes only.

	AUHI	
Factor	Increase or decrease	Impact on net income
Degree days[1]	10 percent	+ / - $0.8 million
Change in allowed rate of return on equity[2]	100 basis points	+ / - $0.4 million
Interest	25 basis points	+ / - $0.1 million

(1) Degree day variance is a measure of how hot or cold the climatological areas in which AUI operates were over the applicable period expressed in relation to normal degree days in that period. A degree day is the cumulative extent to which the daily mean temperature falls below 18 degrees Celsius. Normal degree days are based on a 20-year rolling average.

(2) The change in allowed rate of return on equity pertains only to the return on equity of AUI.

OUTLOOK

In 2006, Utility Group will report its first full year as an operating business. Management expects that the three operating businesses will perform according to the business plans approved by their Boards and regulators.

AUI will continue to pursue growth in its existing franchise areas and is well-positioned to capture opportunities arising in the areas around Edmonton, Alberta. Heritage Gas has a five-year development plan, filed with regulators, that involves extending its reach and customer base gradually as the Nova Scotia markets embrace the benefits of natural gas. Heritage Gas' development strategy is to obtain anchor loads and other customer commitments sufficient to meet economic targets prior to undertaking system expansions. Inuvik Gas' presence north of the Arctic Circle positions it to capture possible growth as northern development occurs with the major pipeline projects bringing Alaskan and northern Canadian gas to market.

In 2006, AUI expects to grow its net rate base by approximately 2 percent from 2005 levels. AUI capital expenditures, net of CIAC, for 2006 are expected to be approximately $7.9 million. In 2005 AUI received a record number of applications for new services and new subdivisions due to the economic activity in its service areas. In addition, a number of gas supply reinforcement and other routine systems betterment projects were completed. It is anticipated that 2006 will have a similar growth in new services and system betterment. AUI expects results to be impacted by the higher than normal winter temperatures experienced in its franchise areas early in 2006.

Heritage Gas will continue its build-out of services in its franchise areas in Nova Scotia. Growth in Heritage Gas is conditional on firm customer commitments that meet regulator-approved economic hurdles to pay for system expansion.

Inuvik Gas is small, and while profitable, results are not expected to change materially in 2006.

Earnings of Utility Group can be significantly influenced by the regulatory allowed return on equity for AUI and Heritage Gas and variances from normal weather in the AUI franchise areas. The allowed return on equity for AUI is set annually by the EUB and for 2005 was 9.5 percent, compared to 9.6 percent in 2004. AUI's rate for 2006 has been set at 8.93 percent. The allowed return on equity for Heritage Gas of 13 percent has been approved by the NSUARB for the multi-year period ending December 31, 2008.

Utility Group's results are also sensitive to differences in weather from "normal", due to the EUB and NSUARB's use of a rolling multi-year average temperature to set AUI's and Heritage Gas' rates. Utility Group receives the benefit or loss related to variances in volumes due to weather, conservation or other factors that impact customer usage. The weather over the 2005-2006 heating season has been unseasonably warm, and volumes delivered by all three operating businesses were lower than normal.

Due to their relatively small size, weather variances for Heritage Gas and Inuvik Gas do not have a significant impact on the earnings of Utility Group.

Regulatory decisions are a third factor that tends to affect the pattern of Utility Group's results. Both AUI and Heritage Gas must estimate revenue until these amounts are finalized pursuant to regulatory proceedings, which can have a significant time lag.

Utility group has a corporate mandate to grow the business, both through existing businesses as outlined above, and also through acquisitions of infrastructure-based utility businesses. Management evaluates acquisition opportunities on an ongoing basis, and will pursue opportunities that will provide accretive shareholder value.

SUBSEQUENT EVENTS

On January 16, 2006, Utility Group purchased 159,372 common shares of Heritage Gas for $0.2 million and advanced $0.3 million under its long-term loan arrangement.

On February 21, 2006, Utility Group purchased an additional 86,577 common shares of Heritage Gas for $0.1 million and advanced $0.2 million under its long-term loan arrangement.

Contributions were also made by the other shareholders, resulting in no change to Utility Group's ownership interest in Heritage Gas.

Management's Responsibility for Financial Statements

Management recognizes that it is responsible for the preparation of the Consolidated Financial Statements and is satisfied that these statements have been prepared using Canadian generally accepted accounting principles and are within reasonable limits of materiality. Further, management is satisfied that the financial information contained in this annual report is consistent with that presented in the Consolidated Financial Statements. The Corporation's internal controls and systems are designed to provide reasonable assurance that its assets are safeguarded and to facilitate the preparation of relevant, reliable and timely information. External auditors have been engaged by the Corporation to examine the Consolidated Financial Statements. The Audit and Governance Committee of the Board of Directors has reviewed these statements with the external auditors and management and has reported its findings to the Board. The Board of Directors, on the recommendation of the Audit and Governance Committee, has approved the Consolidated Financial Statements contained in this report.

Patricia M. Newson
President and Chief Executive Officer
of AltaGas Utility Group Inc.
March 15, 2006

Deborah S. Stein
Chief Financial Officer and Corporate Secretary
of AltaGas Utility Group Inc.
March 15, 2006

Auditors' Report

To the Shareholders of AltaGas Utility Group Inc.

We have audited the consolidated balance sheet of AltaGas Utility Group Inc. as at December 31, 2005 and the consolidated statements of income and retained earnings and cash flows for the period from July 6, 2005 to December 31, 2005. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of AltaGas Utility Group Inc. as at December 31, 2005 and the results of its operations and its cash flows for the period from July 6, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

Ernst + Young LLP

Ernst & Young LLP
Chartered Accountants

Calgary, Canada
March 15, 2006

ALTAGAS UTILITY GROUP INC.
CONSOLIDATED BALANCE SHEET
As at December 31, 2005

($ thousands)		2005
ASSETS		
Current assets		
Cash	$	732
Accounts receivable *(note 14)*		30,089
Inventory		269
Future income tax asset *(note 11)*		133
Prepaid expenses and deferred charges		2,374
		33,597
Property, plant and equipment *(notes 4 and 5)*		106,986
Goodwill *(note 4)*		31,575
Regulatory assets *(note 6)*		3,046
Other assets *(note 7)*		3,676
	$	178,880
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable and accrued liabilities *(note 14)*	$	32,752
Income and other taxes payable		451
		33,203
Long-term debt *(note 8)*		81,025
Customer deposits and other liabilities		1,979
Future income tax liability *(note 11)*		119
		116,326
Shareholders' equity		
Share capital *(note 9)*		61,278
Contributed surplus *(note 9)*		7
Retained earnings		1,269
		62,554
	$	178,880

Commitments *(note 10)*

See accompanying notes to the Consolidated Financial Statements.

Approved by the Board of Directors of AltaGas Utility Group Inc.:

David W. Cornhill
Director

J. Bruce Petrie
Director

ALTAGAS UTILITY GROUP INC.
CONSOLIDATED STATEMENT OF INCOME AND RETAINED EARNINGS
From inception July 6, 2005 to December 31, 2005 (note 1)

($ thousands)		2005
REVENUE *(note 14)*	$	30,450
EXPENSES *(note 14)*		
Cost of natural gas		24,869
Operating and administrative		2,665
Depreciation and amortization		941
		28,475
Operating income		1,975
Interest expense		359
Income before income taxes		1,616
Income taxes *(note 11)*		
Current income taxes		397
Future income taxes		(50)
		347
Net income		1,269
Retained earnings, beginning of period		-
Retained earnings, end of period	$	1,269
Net income per share *(note 9)*		
Basic	$	0.15
Diluted	$	0.15

See accompanying notes to the Consolidated Financial Statements.

ALTAGAS UTILITY GROUP INC.
CONSOLIDATED STATEMENT OF CASH FLOWS
From inception July 6, 2005 to December 31, 2005 (note 1)

($ thousands)		2005
CASH FROM OPERATIONS		
Net income	$	1,269
Items not involving cash:		
Revenue deficiency accrual		(95)
Allowance for funds used during construction *(note 5)*		(76)
Depreciation and amortization *(notes 5 and 6)*		941
Amortization of deferred bank charges		4
Future income taxes (recovery)		(97)
Stock options expense *(note 9)*		7
Funds generated from operations		1,953
Net change in non-cash working capital *(note 12)*		(4,660)
		(2,707)
INVESTING ACTIVITIES		
Additions to property, plant and equipment		(2,216)
Reimbursement of contributions in aid of construction		(586)
Disposition of property, plant and equipment		16
Investment in regulatory and other assets		(652)
Disposition of other assets		100
Business acquisition *(note 4)*		(72,194)
		(75,532)
FINANCING ACTIVITIES		
Increase in long-term debt		76,224
Net proceeds from issuance of common shares *(note 9)*		2,705
Increase in customer deposits and other liabilities		42
		78,971
Change in cash		732
Cash, beginning of period		-
Cash, end of period	$	732

See accompanying notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

(tabular amounts in thousands of dollars unless otherwise indicated)

1. STRUCTURE AND NATURE OF OPERATIONS

AltaGas Utility Group Inc. was incorporated with nominal capital under the *Canada Business Corporations Act* as 6414958 Canada Limited on July 6, 2005 and filed a certificate of amendment to change its name to AltaGas Utility Group Inc. (Utility Group or the Corporation) on July 28, 2005. Utility Group began active operations with the acquisition of all the issued and outstanding common shares of AltaGas Utility Holdings Inc. (AUHI) on November 17, 2005.

AUHI's subsidiaries, AltaGas Utilities Inc. (AUI), AltaGas Utility Holdings (Nova Scotia) Inc. (AUH(NS)) and Inuvik Gas Ltd. (Inuvik Gas) hold interests in regulated natural gas distribution utility businesses operating in Alberta, Nova Scotia and the Northwest Territories, respectively. AUI and AUH(NS) are wholly owned subsidiaries of AUHI, while Inuvik Gas is one-third owned by AUHI. AUH(NS) owns a 24.9 percent interest in Heritage Gas Limited (Heritage Gas). The investments in Inuvik Gas and Heritage Gas are each jointly controlled by AUHI along with their other shareholders.

AltaGas Utility Holdings Inc.

AUHI was incorporated under the laws of Canada on May 12, 1998.

AltaGas Utilities Inc.

AUHI acquired AUI on June 30, 1998. AUI is incorporated under the laws of Canada. AUI and its predecessor entities have been operating since 1954 as a provincially regulated natural gas distribution utility serving more than 90 communities in Alberta. AUI is regulated by the Alberta Energy and Utilities Board (EUB).

AltaGas Utility Holdings (Nova Scotia) Inc.

AUH(NS) was incorporated under the laws of Alberta on September 16, 2002. AUH(NS)' sole investment is a 24.9 percent interest in Heritage Gas.

Heritage Gas was incorporated under the laws of Canada on August 13, 2002. Its shareholders and their respective ownership interests are as follows:

SaskEnergy Nova Scotia Holdings Ltd.	50.1 percent
Silgascorp Inc.	25.0 percent
AltaGas Utility Holdings (Nova Scotia) Inc.	24.9 percent

On August 16, 2002, Heritage Gas filed an application for the right to distribute natural gas to certain counties in Nova Scotia. On February 7, 2003, the Nova Scotia Utility and Review Board (NSUARB) granted Heritage Gas a full regulation class franchise for a period of 25 years. On December 19, 2003, the NSUARB issued an interim approval of a schedule of rates, tolls and charges and a license to operate. Heritage Gas activated its natural gas distribution system on December 20, 2003.

Inuvik Gas Ltd.

Inuvik Gas was incorporated under the laws of Canada on February 21, 1997. The shareholders are AUHI, Inuvialuit Petroleum Corporation and IPL Holdings Inc. and each has an equal ownership interest.

Inuvik Gas owns and operates the natural gas distribution system serving the Town of Inuvik in the Northwest Territories. Inuvik Gas was in a pre-operating construction phase from 1999 through to November 2000 and commenced commercial operations on December 1, 2000.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These Consolidated Financial Statements include the accounts of Utility Group and all of its wholly owned subsidiaries and its proportionate interests in Heritage Gas and Inuvik Gas from date of acquisition of AUHI on November 17, 2005. Transactions between Utility Group, wholly owned subsidiaries and the proportionately consolidated entities are eliminated on consolidation.

Generally Accepted Accounting Principles

These Consolidated Financial Statements are prepared by management in accordance with Canadian generally accepted accounting principles (GAAP), including accounting policies for which guidance has been provided by regulations and recommendations of the EUB and NSUARB. All amounts are stated in Canadian dollars.

Utility Group has adopted the recommendations in Section 1100 of the Canadian Institute of Chartered Accountants (CICA) Handbook. This section establishes standards for financial reporting in accordance with GAAP. It describes what constitutes GAAP and its sources and states that entities in rate regulated industries are not required to apply this section to the recognition and measurement of assets and liabilities arising from rate regulation and consequently Utility Group discloses the nature of the differences between its accounting policies for assets and liabilities arising from rate regulation and those required by GAAP.

The Corporation has adopted the recommendations in Accounting Guideline 19, Disclosures by Entities Subject to Rate Regulation. The Guideline requires the disclosure of general information regarding the nature and economic effects of rate regulation as well as the specific effects of rate regulation on transactions or events accounted for in the financial statements.

Regulatory Background

AUI and Heritage Gas engage in the delivery and sale of natural gas and are regulated by the EUB and the NSUARB, respectively. The EUB and NSUARB exercise statutory authority over matters such as tariffs, rates, construction, operations, financing, returns, accounting and certain contracts with customers. In order to recognize the economic effects of the actions and decisions of the EUB and NSUARB, the timing of recognition of certain assets, liabilities, revenues and expenses as a result of regulation may differ from that otherwise expected using GAAP for entities not subject to rate regulation.

Inuvik Gas is subject to light-handed regulation by the Northwest Territories Public Utilities Board (NWTPUB), whereby rates are negotiated directly with customers. The NWTPUB is satisfied that competition for alternative fuel exists in Inuvik and that competition is sufficient to negate the need for full regulation. Inuvik Gas files rates charged with the NWTPUB. The NWTPUB can take action should any complaints be received and may review the affairs, earnings and accounts of Inuvik Gas as it deems necessary.

Return on Rate Base

AUI and Heritage Gas are allowed the opportunity to earn a return on their rate bases intended to provide shareholders with a fair return on investment and to cover the cost of interest expense on debt. The allowed return on rate base is equal to the sum of (a) the net rate base multiplied by the allowed equity component multiplied by the allowed rate of return on equity, plus (b) the net rate base multiplied by the allowed debt component multiplied by the allowed regulatory rate for debt. The rate base for AUI and Heritage Gas is the aggregate of regulator-approved investment in plant, property and equipment, less accumulated depreciation, plus an allowance for working capital. The net rate base excludes from the rate base no-cost capital, which consists of unamortized contributions in aid of construction and grants from government and customers. The allowed equity component is the portion of AUI and Heritage Gas' capital structure that the regulator deemed to be financed with equity for tariff purposes. Generally, the allowed regulatory rate for debt will equal the actual or forecast weighted average cost of debt for the regulated entity.

AUI's allowed rate of return on equity is set annually by the EUB and is tied to long-term Canada bond rates, and is the same for all utilities regulated by the EUB. The EUB has established that the regulated capital structure is utility specific and has determined that any required changes to currently approved capital structures will be addressed through utility specific rate applications. AUI's current regulated capital structure was set at 59 percent debt and 41 percent equity by the EUB in July 2004. The rate of return on common equity was established at 9.6 percent by the EUB for 2004, based on a forecast long-term Canada bond rate of 5.68 percent. This rate is adjusted annually by 75 percent of the change in forecast long-term Canada bond yields published in the November Consensus Forecast for the Canadian economy prepared by Consensus Economics

Inc., then adjusted for the difference between 10-year and 30-year Canada bond yields for October. On November 30, 2004, the return on equity for 2005 using the EUB-approved methodology was set at 9.5 percent.

The NSUARB has granted Heritage Gas a regulated rate of return of 13 percent on a 45 percent equity component and an 8.75 percent cost of shareholder debt on a 55 percent debt component of its capital structure for the five-year period ending December 31, 2008. No changes are expected until that time.

Regulatory Process - Delivery Tariffs

AUI's and Heritage Gas' delivery tariffs are determined through a two-phase General Rate Application (GRA). Phase 1 establishes the revenue requirement and Phase 2 sets the rates to be charged to various customer classes.

AUI seeks approval of its revenue requirement though a negotiated settlement process with interested parties or through an administrative hearing before the EUB. The EUB monitors the negotiated settlement process and EUB approval is required for any settlement AUI reaches with interested parties. Factors affecting AUI's revenue requirement include forecasts for rate base, distribution and other revenue, gas costs, operating costs, depreciation, financing costs, income taxes and return on rate base. Heritage Gas uses an administrative hearing for the two phases of the regulatory process.

Although the approved revenue requirement and subsequent approved rates are based on forecasts, and actual results can differ from these forecasts, no adjustment is made to either the revenue requirement or rates for actual results varying from forecast. Once the rates are approved for a period, all risks and benefits from differences in actual versus forecast energy units delivered, capital expenditures, numbers of service sites billed, customer usage, operating costs, debt servicing costs and taxes are borne by the utility's shareholders. Actual returns achieved can therefore differ from allowed returns.

Regulatory Process - Gas Cost Recovery Rate (GCRR)

The GCRR are charged to consumers for gas supply and are designed to allow AUI and Heritage Gas to recover the market-determined price paid for natural gas without any mark-up. The EUB and NSUARB have established a framework for AUI and Heritage Gas to file their costs monthly with the EUB and NSUARB, respectively. The EUB reviews AUI's GCRR applications to ensure that only the actual cost of gas is passed on to consumers. Once verified by the EUB, interested parties have 30 days to file any objections to the rate. The NSUARB has established that it does not have jurisdiction over setting the GCRR and therefore Heritage Gas merely advises the NSUARB of the new price for the following month.

AUI and Heritage Gas each establish what its GCRR should be each month by forecasting consumption. The forecast price is then determined using published indices. In addition to gas purchases, the GCRR includes estimated gas supply-related management and administration costs that are incurred by AUI such as transportation costs, gas supply-related bad debts, and gas supply-related cash working capital costs.

During the course of the month, energy costs may vary from the forecast because of changes in demand and market price. In order to reconcile what customers are charged through the cost of gas rate with actual gas costs, any surpluses or deficits are placed in a deferred gas account. Any amount in the deferred gas account at the end of a month is included when determining the cost of gas for a subsequent period.

The accounting policies impacted by rate regulation are as follows:

Revenue Recognition

Revenues include revenue from the delivery of natural gas and recovery of the cost of gas paid to suppliers and of the associated gas supply costs. Utility Group's businesses recognize revenues when gas has been delivered or services have been performed. Gas distribution revenues are recorded on the basis of regular meter readings and estimates of usage since the last meter reading to the end of the reporting period. AUI and Heritage Gas recognize revenue in a manner that is consistent with the underlying rate-setting mechanism mandated by the regulating authorities. The delivery charges are designed to recover AUI and Heritage Gas' total cost of service and include an approved return on equity. Inuvik Gas recognizes revenue based upon rates as billed to customers.

AUI accrues revenue associated with the difference between the accrued costs and the funded costs of other retirement benefits. This revenue is recovered from customers in future periods in a manner that is consistent with the underlying rate-setting mechanism as mandated by the regulator.

Cost of Natural Gas Sales

Cost of natural gas sales included in customer rates for AUI and Heritage Gas is based on the forecast cost of natural gas. Variances between forecast cost and actual cost of natural gas are deferred for refund to, or collection from, customers through adjustments to future rates. For both AUI and Heritage Gas, such adjustments occur in the following month.

Cost of natural gas sales for Inuvik Gas is based on market rates and there is no cost pass-through mechanism.

Property, Plant and Equipment

Property, plant and equipment are recorded at cost, including certain overhead and administrative expenses attributable to construction and an imputed carrying cost incurred during the construction period to finance long-term construction projects as approved by the regulating authorities. Utility Group capitalizes an imputed carrying cost on assets during construction as authorized by regulating authorities and the amount so capitalized is disclosed in Note 5 to the financial statements as allowance for funds used during construction (AFUDC). AFUDC is the amount that a rate-regulated enterprise is allowed to recover for its cost of financing assets under construction. Generally it is calculated at mid-year cost of construction work-in-progress times regulated percentage cost of capital. Capitalized overhead, administrative expenses and AFUDC are included in the cost of the related assets and are recovered in future periods through depreciation charges.

Additions to property, plant and equipment are sometimes made with the assistance of contributions in aid of construction from the provincial governments and customers (CIAC), where the estimated revenue is less than the cost of providing service or where special facilities are required to supply customers' specific needs. CIAC is recorded as a reduction of the corresponding asset balances. Amortization of CIAC is provided at rates that correspond with the depreciation of the related asset and is offset against the accumulated depreciation of the corresponding asset. Some portion of CIAC may be refundable. When refunded by AUI, the amount is then added to rate base.

For AUI and Heritage Gas, depreciation of property, plant and equipment is provided, subject to the approval of regulatory authorities, on a straight-line basis or over the contract term of a specific agreement. Depreciation rates are subject to periodic review and revision as part of the rate making process. Any change in rates affects the current period's depreciation expense and the amount that can be recovered by the regulated business in its revenues. Current rates for both AUI and Heritage Gas are:

Transmission and distribution systems	0.85 to 23.82 percent
Buildings, equipment and administrative	3.10 to 35.71 percent
Other	10.90 percent

Depreciation rates for 2004 were:

Transmission and distribution systems	0.81 to 21.15 percent
Buildings, equipment and administrative	2.45 to 33.33 percent
Other	8.15 percent

For Inuvik Gas, depreciation of property, plant and equipment is provided on a straight-line basis over the estimated useful life of the assets as follows:

Distribution system	40 years
Computers	6 years
Other	3 to 10 years

Utility Group's natural gas transmission and distribution network comprises mains, service lines and measuring and regulating equipment and facilities. The depreciation rates include a provision for future removal and site restoration costs as required by the regulating authorities. Accumulated amortization includes the accumulated effect of the future removal and site restoration costs included in the depreciation rates. On retirement of depreciable assets, accumulated depreciation is charged with the cost of the retired unit, disposal and site restoration costs less salvage, as required by the regulating authorities. Under GAAP for entities not subject to rate regulation, the depreciation rates would include no amount with respect to future removal and site restoration costs. In addition, differences between the proceeds of disposal and the asset's net book value would be recognized as a gain or loss during the period of disposal.

Regulatory Assets

Deferred Charges

Certain charges connected with costs of regulation are recorded at cost, deferred and amortized as approved by the regulator. The recovery or settlement period, or likelihood of recovery or settlement, of deferred charges is affected by the ultimate treatment by the regulator in the rate-setting process. There is risk and uncertainty that the regulator may not allow full recovery of recorded regulated assets.

Revenue Deficiency Account

Heritage Gas has approval from the NSUARB to use a Revenue Deficiency Account (RDA). The RDA changes based on the difference between the actual revenue billed and the revenue required to earn the rates of return approved by the NSUARB. In Heritage Gas' customer development stage, it is expected that the actual revenue billed will be less than the revenue required to earn the approved rates of return and therefore an RDA asset will accumulate. As the distribution network matures, the actual revenue billed is expected to exceed the revenue required to earn the approved rates of return, and the RDA will be drawn down. The recovery of any residual balance in the RDA at December 31, 2008 is subject to approval by the NSUARB.

In a year where a GRA has been filed but no decision has been issued, AUI accrues a revenue deficiency equivalent to the difference between the sales revenue expected to be received under its proposed GRA and the sales revenues at current approved rates. When the EUB issues a decision respecting the GRA, AUI finalizes its accrual based on the approved revenue requirement and the revenue forecast to be collected at current approved rates and collects the revenue deficiency by way of a deficiency rate rider. The AUI accrual is included in accounts receivable.

For entities not subject to rate regulation, GAAP would not provide for the accrual of a revenue deficiency. Revenue would be recognized based on amounts charged to customers during the period.

Income Taxes

Income taxes at AUI and Heritage Gas, except for that applied to the deferred cost of gas are recovered from customers when paid and are provided for using the taxes payable method approved by the regulatory authorities. Therefore, provision is made only for those income taxes currently payable. No future tax is recorded by AUI and Heritage Gas on the differences between the financial reporting and tax basis of assets and liabilities as would be required by GAAP for non-regulated entities since it is anticipated that such taxes will be recovered through future rates. GAAP requires the recognition of future tax liabilities and future tax assets in the absence of rate regulation. Future income taxes related to the temporary difference between the tax basis of the deferred cost of gas and its carrying amount are netted against the carrying value of the related asset or liability presented on the balance sheet.

The liability method of tax accounting is used for Inuvik Gas and other non-regulated activities of Utility Group. Under this method, future income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities, and are measured using the substantively enacted tax rates and laws that are anticipated to be in effect in the periods in which the differences are expected to be settled or realized.

Other Significant Accounting Policies

Cash

Cash consists of cash on hand and balances with banks.

Inventory

Inventories of pipe, fittings and other materials used in construction and operations are valued at the lower of average cost and replacement cost.

Asset Retirement Obligation

Certain of Utility Group's long-lived tangible assets owned by its subsidiaries and operating affiliates will have future legal obligations on retirement. However, Utility Group has not recorded an asset retirement obligation due to the indeterminate life of its distribution and supply network and corresponding indeterminable timing and scope of asset retirements. An asset retirement obligation and offsetting capital asset will be recognized when the timing and amount can be reasonably estimated.

Goodwill

Goodwill represents that portion of the purchase price of the shares of AUHI, purchased on November 17, 2005, which was in excess of the fair market value of the assets acquired. Goodwill will be tested at least annually for impairment by comparing the fair value of AUHI with its book value. Impairment charges will be recorded as impairment estimates are determined.

Stock-based Compensation

The Corporation follows the fair value method of accounting for share options granted during the year. Share options are valued at the date of the grant and recognized as compensation expense over the vesting period of the options. Consideration received by the Corporation on exercise of the option rights is credited to shareholders' capital.

Pension Plans and Retirement Benefits

AUI has defined benefit pension and other retirement benefit plans.

The cost of the defined benefit pension and other retirement benefit plans are actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation, retirement ages of employees and other cost escalation and actuarial factors.

For purposes of calculating the expected return on plan assets, those assets are valued at fair value. The measurement date for the plan assets and obligations coincides with AUI's fiscal year-end date of December 31. Obligations are attributed to the period beginning on the employee's date of joining the plan and ending on the earlier of the date of termination, death or retirement.

The cumulative unamortized net actuarial gain or loss at the beginning of the year in excess of 10 percent of the greater of the accrued benefit obligation and the fair value of plan assets is amortized on a straight-line basis over the average remaining service life of the active employees. The average remaining service periods of the active members covered by the pension plans and other retirement benefits plans are 14 to 16 years, respectively. Past service costs resulting from plan amendments are amortized on a straight-line basis over the average remaining service life of active employees for the respective plan. Transitional obligations are being amortized on a straight-line basis over the remaining service life of active employees at the time that the transitional obligations arose (15 years, ending December 31, 2014).

The other retirement benefit plans are funded on a cash basis as benefits are paid. No assets have been segregated or restricted to provide for the cost of the other benefits.

Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the period. Certain estimates are also necessary since the regulatory environment in which Utility Group's subsidiaries and affiliates operate often require amounts to be recorded at estimated values until these amounts are finalized pursuant to regulatory decisions, or other regulatory proceedings. Due to the inherent uncertainty involved in making estimates, these estimates are subject to measurement uncertainty and may impact the financial statements of future periods.

Segmented Information

Utility Group reports its businesses as one reportable segment.

3. FINANCIAL INSTRUMENTS

Financial instruments that subject Utility Group to credit risk consist primarily of accounts receivable. Accounts receivable credit risk is reduced due to a large and diversified customer base, customer deposits for at-risk customers and the ability to recover the majority of uncollectible accounts through customer rates.

The carrying value of the current financial assets and liabilities of Utility Group approximate their fair value due to their short period to maturity. The carrying value of long-term debt also approximates fair value. The fair value of long-term debt is estimated using discounted cash flows based on current rates of interest.

The Corporation draws on its revolving term credit facility to fund its operations with floating rate debt, which exposes Utility Group to changes in interest payments due to fluctuations in interest rates.

4. ISSUANCE OF SHARES AND BUSINESS ACQUISITION

On November 17, 2005 Utility Group issued 7,799,895 common shares from its treasury to acquire from AltaGas Income Trust (the Trust) all the issued and outstanding common shares of AUHI. The Trust concurrently distributed 3,899,895 shares of Utility Group to its unitholders and sold 1,716,000 shares to the public in a secondary offering and Utility Group completed an offering of 390,000 shares at a price of $7.50 per share for gross proceeds of $2.9 million.

Given the resultant substantial change in effective ownership of AUHI, the acquisition of AUHI is treated as a business combination at fair market value at November 17, 2005 and is accounted for using the purchase method. The consideration paid consisted of cash of $74.7 million and common shares valued at $58.5 million.

Net Assets Acquired		2005
Cash and cash equivalents	$	2,515
Current assets		26,068
Property, plant and equipment		105,054
Goodwill		31,575
Other assets		6,096
Current liabilities		(31,327)
Long-term debt		(4,679)
Other liabilities		(2,093)
	$	133,209

Consideration		
Cash	$	74,709
Shares issued		58,500
	$	133,209

5. PROPERTY, PLANT AND EQUIPMENT

		2005				
		Cost		Accumulated depreciation and amortization		Net book value
Transmission and distribution systems	$	149,609	$	57,805	$	91,804
Buildings, equipment and administrative		24,737		9,872		14,865
Other		789		472		317
	$	175,135	$	68,149	$	106,986

Included in transmission and distribution systems and buildings, equipment and administrative at December 31, 2005 was work-in-progress in the amount of $3.1 million. Work-in-progress is not depreciated until the year after the asset is brought into active service, as required by the regulating authorities.

Utility Group capitalized $0.3 million of operating, administration and maintenance expenses during 2005.

Utility Group recorded $0.1 million as AFUDC during 2005.

Depreciation and amortization of plant and equipment and CIAC are included in depreciation and amortization expense.

Net additions to property, plant and equipment are not depreciated until the year after they are brought into active service as required by the regulating authorities. Net additions to property, plant and equipment that were not depreciated during the period were $0.5 million.

6. REGULATORY ASSETS

	2005		
	Cost	Accumulated amortization	Net book value
Deferred charges			
Deferred CEO/CFO certification costs	$ 467	$ 264	$ 203
Deferred debt costs	48	-	48
Deferred regulatory costs	388	50	338
Future recovery of other retirement benefits	1,111	-	1,111
	2,014	314	1,700
Revenue deficiency account	1,346	-	1,346
	$ 3,360	$ 314	$ 3,046

AUI incurred CEO/CFO certification costs related to compliance with legal requirements related to internal control over financial reporting as a result of proposed Multilateral Instrument 52-111, Reporting on Internal Control Over Financial Reporting, which are included in 2005/2006 allowed rates on a forecast basis. For rate-setting purposes, differences between forecast and actual CEO/CFO certification costs in the 2005/2006 rate years are held until the following GRA, when their final disposition will be decided. AUI recognizes the CEO/CFO certification costs variances as a regulatory asset or liability, based on the expectation that amounts held from one year to the next for rate-setting purposes will be approved for collection from, or refund to, customers in future periods. The regulatory assets represent the excess of actual over-approved CEO/CFO certification costs. AUI intends to seek, and expects to receive, approval for recovery of any remaining costs at the end of the 2005/2006 rate years in the next rate hearing (expected in 2007). In the absence of rate regulation, GAAP would require that actual CEO/CFO certification costs be recognized as an expense when incurred. In this case, operating results for 2005 would have been $88,000 lower.

Deferred debt costs are deferred as incurred and will be amortized as directed by the EUB. As of December 31, 2005, no amortization has been taken on these deferred costs. In the absence of rate regulation, GAAP would require the actual cost be recognized as an expense when incurred. In this case, operating results for the period would have been $48,500 lower.

AUI regulatory costs are included in 2005/2006 allowed rates on a forecast basis. For rate-setting purposes, differences between forecast and actual regulatory costs in the 2005/2006 rate years are held until the following GRA, when their final disposition is decided. AUI recognizes the regulatory costs variances as a regulatory asset or liability, based on the expectation that amounts held from one year to the next for rate setting purposes will be approved for collection from, or refund to, customers in future periods. The regulatory asset represents the excess of actual over forecast regulatory costs. AUI is approved to recover the remaining approved deferred regulatory costs by the end of 2006. Included in the regulatory asset are certain costs incurred by Heritage Gas prior to 2005 related to regulatory proceedings. These costs are being amortized on a straight-line basis over a five-year period, which commenced in 2004, as approved by the NSUARB. In the absence of rate regulation, GAAP would require that actual regulatory costs be recognized as an expense when incurred. In this case, operating results for 2005 would have been $110,500 lower.

Other retirement benefits are accounted for on an accrual basis in accordance with the CICA Handbook Section 3461. For regulatory purposes, these other retirement benefit costs are recoverable from customers based on the funding of the costs. The revenue associated with the difference between the accrued costs and the funded costs is accrued and will be recovered from customers in the future. In the absence of rate regulation, GAAP would require that the accrued revenue be recognized in the period earned. Consequently, operating results are $30,600 higher in the period than would be the case in the absence of rate regulation.

The RDA at December 31, 2005 was $1.3 million. The effect of the RDA accumulation was to increase 2005 revenue by $0.1 million.

For the regulatory items identified above, the recovery or settlement period, or likelihood of recovery or settlement, is affected by the ultimate treatment by the regulator in the rate-setting process. For example, AUI's treatment of gas costs is dependent on the continued use of an automatic adjustment mechanism for regulatory purposes, and would require reconsideration if the regulator decided to discontinue use of this mechanism. There is risk and uncertainty that the regulator may not allow full recovery of recorded regulatory assets.

The Corporation does not capitalize AFUDC as part of any of the regulatory items identified above.

The Corporation capitalizes certain overhead, engineering and administrative expenses in property, plant and equipment, as approved by the EUB. In the absence of rate regulation, GAAP would require that a portion of these capitalized expenses be recognized as an expense when incurred.

7. OTHER ASSETS

		2005
Due from Heritage Gas Limited	$	3,337
Due from Inuvik Gas Ltd.		173
Deferred bank charges		116
Other assets		50
	$	3,676

Heritage Gas and Inuvik Gas are jointly controlled and are proportionately consolidated by Utility Group. A portion of advances made by Utility Group to Heritage Gas and Inuvik Gas is shown by Utility Group as a long-term receivable from the other shareholders of proportionately consolidated subsidiaries. The Heritage Gas advance is due in 2009 and the Inuvik Gas advance is due as working capital is available.

Deferred bank charges are being amortized on a straight-line basis over a five-year period.

8. DEBT

Short-term Debt

On November 17, 2005 the Corporation entered into an unsecured uncommitted demand operating credit facility with a Canadian chartered bank for $10.0 million. Borrowings on the facility can be by way of prime rate loans, US base rate loans, letters of credit, bankers' acceptances and LIBOR loans. To date there have been no draws on this facility.

On September 2004 Heritage Gas obtained a $1.0 million (Utility Group's proportionate interest - $0.3 million) demand credit facility from a Canadian chartered bank. It is secured by a general claim on the property of Heritage Gas and bears interest at prime plus 1 percent. Borrowings on the facility are by way of loans bearing interest at the bank's prime rate, or by way of letters of credit or letters of guarantee for a fee. To date there have been no draws on the facility.

Effective 2003 Inuvik Gas held a $0.5 million (Utility Group's proportionate interest $0.2 million) revolving demand credit facility with one of its affiliates. The borrowings bear interest at prime plus one percent and to date there has been no draws on the facility.

Long-term Debt

Utility Group funds its long-term borrowing requirements with a credit facility from a syndicate of Canadian chartered banks, from shareholders of proportionately consolidated subsidiaries, and from the Province of Nova Scotia.

Facility	Maturity	Interest rate		2005
Revolving, term credit facility	November 2008	3.94%[1]	$	76,121
Promissory note issued 2004 to SaskEnergy Nova Scotia Holdings Ltd.	December 2009	8.75%[2]		2,227
Promissory note issued 2004 to Silgascorp Inc.	December 2009	8.75%[2]		1,111
Loan from Province of Nova Scotia	July 2014	See note below		1,394
Promissory note issued 2002 to IPL Holdings Inc.	note 3	Non-interest bearing		86
Promissory note issued 2002 to Inuvialuit Petroleum Corporation	note 3	Non-interest bearing		86
			$	81,025

(1) Average bankers' acceptance rate for outstanding bankers' acceptances at December 31, 2005.
(2) Interest payable quarterly.
(3) Repayable when net working capital, as defined by Canadian GAAP, exceeds $0.5 million.

On November 17, 2005 the Corporation entered into an unsecured extendible revolving credit facility with a syndicate of Canadian chartered banks for $100.0 million with a term to November 17, 2008. The maturity date is extendible upon consent of each lender for further successive one-year periods. Borrowings on the facility can be by way of prime rate loans, US bank rate loans, letters of credit, bankers' acceptances and LIBOR loans. At December 31, 2005 borrowings were in the form of bankers' acceptances.

In 2005, Heritage Gas received $7.6 million from the Province of Nova Scotia, of which Utility Group's proportionate share is $1.9 million. If certain capital investments are made by December 31, 2006, up to $2.0 million (Utility Group share - $0.5 million) of the original loan proceeds will be forgiven. Management of Heritage Gas is anticipating that it will make the capital investments and has recorded the $2.0 million (Utility Group share - $0.5 million) as a reduction of the loan and corresponding reduction in property, plant and equipment. If the capital investment targets are not achieved by December 31, 2006, Heritage Gas is required to repay a portion of the loan by April 30, 2007.

The loan from the Province of Nova Scotia is currently non-interest bearing. If prescribed revenue targets are achieved, interest will accumulate on a prospective basis at a rate of 6 percent. The loan from the Province of Nova Scotia is guaranteed until December 31, 2006 on a proportionate basis of ownership by the shareholders of Heritage Gas. Effective January 1, 2007, the loan will be secured by a first fixed charge over Heritage Gas' assets. On or before July 31, 2011, Heritage Gas will elect to repay the loan in one lump sum payment on July 1, 2014, or by paying in five equal installments beginning July 31, 2012. Heritage Gas may also elect to fully repay the loan at any time with no penalty.

9. SHARE CAPITAL

Authorized

- An unlimited number of common shares without nominal or par value; and
- An unlimited number of preferred shares without nominal or par value, issuable in series, to which the directors may fix before issuance the designation, rights, privileges, restrictions and conditions to attach to the preferred shares of each series.

Issued and Outstanding

		2005
	Number	Amount
Common shares issued on formation	10	$ -
Issued in exchange for all of the shares of AUHI	7,799,895	58,500
Issued on public offering	390,000	2,925
Share issue costs (net of tax)	-	(147)
Shares outstanding at December 31, 2005	8,189,905	$ 61,278

On November 17, 2005 in conjunction with the Trust's spin-out of its Natural Gas Distribution segment into a separate, publicly traded company, Utility Group issued 7,799,895 common shares to a subsidiary of the Trust for all of the shares of AUHI. The fair market value of the shares issued was $58.5 million and there were no costs of issuance.

On November 17, 2005 Utility Group closed a public offering for 390,000 common shares at $7.50 per share. Proceeds net of share issue costs were $2.7 million.

Net Income Per Share

Basic net income per share is calculated by dividing the net income attributable to the shares by the weighted-average shares outstanding. Diluted net income per share is calculated using the treasury stock method, which reflects the potential exercise of stock options on the weighted-average shares outstanding. The weighted-average number of shares outstanding for the period ended December 31, 2005 was 8.2 million. The weighted-average diluted number of shares outstanding for the period ended December 31, 2005 was 8.2 million. The potential exercise of stock options had no dilutive effect for the period ended December 31, 2005.

Net income per share was calculated using the weighted-average number of shares outstanding from the period November 17 to December 31, 2005, as there was no operating income prior to November 17, 2005.

Stock Option Plan

The Corporation has an employee share option plan under which both employees and directors are eligible to receive grants. At December 31, 2005 818,990 shares were reserved for issuance under the plan. To December 31, 2005 options granted under the plan had a term of 10 years to expiry and vested no longer than over a four-year period.

At December 31, 2005 outstanding options are exercisable to the year 2015. Options outstanding under the plan have a weighted average exercise price of $7.50 and a weighted average remaining term of 9.88 years. Stock option compensation expense charged to operating and administrative expense for the period ended December 31, 2005 was $7,000 with a corresponding increase to contributed surplus.

		2005
Expiry date	Number of options	Exercise price
2015	170,000	$ 7.50

		2005
	Number of options	Weighted average exercise price
Stock options outstanding, beginning of period	-	$ -
Granted	170,000	7.50
Stock options outstanding, end of period	170,000	$ 7.50
Exercisable at end of period	-	$ -

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted-average assumptions for grants as follows:

	2005
Risk-free interest rate (percent)	4.08
Expected lives (years)	10
Expected volatility (percent)	14.00

10. COMMITMENTS

Lease Agreements

Utility Group has future minimum lease payments under operating leases for office and warehouse space, office equipment and automotive equipment, estimated as follows:

($ millions)	2005
2006	$ 98
2007	48
2008	34
	$ 180

Natural Gas Supply

Inuvik Gas purchases gas for resale from the Ikhil Joint Venture under a 15-year gas purchase agreement at a price adjusted annually on August 1 based on the change in the average price of high sulphur diesel at Edmonton. This arrangement is the sole source of Inuvik Gas' gas supply.

11. INCOME TAX

The tax provision recorded on the Consolidated Financial Statements differs from the amount computed by applying the combined Canadian federal and provincial income tax statutory rates to income before income taxes as follows:

		2005
Income before income taxes	$	1,616
Statutory income tax rate		33.62%
Expected taxes at statutory rate	$	543
Increase (decrease) in income taxes resulting from:		
Depreciation and amortization in excess of capital cost allowance claimed for income tax purposes		(14)
General and administrative expenses capitalized		(93)
Large corporations tax in excess of federal surtax		46
Other		(85)
Provision for income taxes		
Current		397
Future		(50)
	$	347
Effective income tax rate		21.47%

Future income tax expense and future income tax assets and liabilities have not been recognized for Utility Group's rate regulated businesses. Unrecognized future income tax expense for the period ended December 31, 2005 was $0.2 million. Unrecognized future income tax liabilities at December 31, 2005 were $7.0 million.

Future income taxes recognized in these financial statements comprise the following:

		2005
Future income tax liability - property, plant and equipment	$	119
Future income tax asset - non-capital losses and unamortized issue costs		(133)
	$	(14)

12. NET CHANGE IN NON-CASH WORKING CAPITAL

The net change in the following non-cash working capital items increased (reduced) cash flows from operations as follows:

		2005
Accounts receivable	$	(4,986)
Inventory, prepaid, expenses and deferred charges		(605)
Accounts payable and accrued liabilities		5,172
Deferred cost of gas, net of income taxes		(2,562)
Income and other taxes payable		(1,807)
		(4,788)
Less decrease in capital costs payable		128
Net change in non-cash working capital from operations	$	(4,660)

The following cash payments have been included in the determination of net income:

		2005
Interest paid	$	9
Income taxes paid	$	36

13. PENSION AND OTHER RETIREMENT BENEFIT PLANS

Substantially all full-time employees of Utility Group's subsidiary AUI are members of defined benefit non-contributory pension plans. The defined benefit pension plans are funded by contributions by AUI. Pension benefits are based on length of service and final average earnings.

AUI also has plans that provide other post-retirement benefits such as life insurance and health care to certain of its employees. These other benefit plans are not funded.

Cash payments of $0.2 million were made to the pension plans by AUI during the period November 17 through December 31, 2005. These plan contributions were made in accordance with the Report on the Actuarial Valuation for Funding Purposes as at September 30, 2002 for each plan. The most recent actuarial valuations for funding purposes were completed as at September 30, 2005 and will be filed by March 31, 2006. The next actuarial valuations for funding purposes must be no later that September 30, 2008.

Accrued Benefit Obligation	Pension plan benefits	Other benefit plans
Balance, beginning of period	$ 16,147	$ 1,675
Experience loss/actuarial loss	732	82
Current service cost	101	7
Interest cost	110	9
Benefits paid	(9)	(3)
Balance, end of period	$ 17,081	$ 1,770

Fair Value of Plan Assets	Pension plan benefits	Other benefit plans
Balance at beginning of period	$ 14,171	$ -
Actual return on plan assets	81	-
Employer contributions	233	3
Benefits paid	(9)	(3)
Balance at end of period	$ 14,476	$ -

Pension Plan assets consist of (percentage of plan assets):

Canadian equity securities	39%
Foreign equity securities	25%
Debt securities	35%
Cash	1%
	100%

Reconciliation of the deficit status of the benefits plan to the amounts recorded in the financial statements:

	Pension plan benefits	Other benefit plans
Fair value of plan assets	$ 14,476	$ -
Accrued benefit obligation	17,081	1,770
Deficit status	$ (2,605)	$ (1,770)
Unamortized transitional obligation	371	301
Unamortized past service costs	105	-
Unamortized net actuarial loss	2,859	765
Accrued benefit asset (liability)	$ 730	$ (704)

The accrued benefit asset (liability) is included in accounts payable and accrued liabilities.

None of the individual plans included in the Pension Plan and Other Benefit Plans are fully funded. The Salaried Employees' Pension Plan has plan assets with a fair value of $9.4 million and an accrued benefit obligation of $11.3 million, resulting in a deficit of $1.9 million; the Bargaining Unit Pension Plan has plan assets with a fair value of $5.0 million and an accrued benefit obligation of $5.5 million, resulting in a deficit of $0.5 million and the Supplementary Executive Pension Plan has plan assets with a fair value of $nil and an accrued benefit obligation of $0.3 million, resulting in a deficit of $0.3 million.

Elements of AUI's net benefit plan expenses recognized in the period:

		Pension plan benefits		Other benefit plans
Current service cost and expenses	$	101	$	7
Interest cost		110		9
Actual return on plan assets		(81)		-
Actuarial losses		732		82
Costs arising in the period	$	862	$	98
Differences between costs arising in the period and costs recognized in the period in respect of:				
Return on plan assets		(27)		-
Plan amendments		4		-
Actuarial gains		(733)		(80)
Transitional obligations		6		4
Net periodic benefit plan costs recognized	$	112	$	22

The weighted average assumptions made in the measurement of the cost of pension plan benefits and other benefit plans as of December 31 are:

(percent)	Pension plan benefits	Other benefit plans
Discount rate	6.0	6.0
Expected long-term rate of return on plan assets	6.5	n/a
Rate of compensation increase	5.0	5.0

The weighted average assumptions made in the measurement of the projected benefits obligations of the pension plan benefits and other benefit plans as of December 31 are:

(percent)	Pension plan benefits	Other benefit plans
Discount rate	5.0	5.0
Rate of compensation increase	5.0	5.0

The calculations for health care benefits allow for increased utilization of health care benefits due to aging and also for economic increases in the future. The assumed initial health care cost trend rates used to measure the expected cost of benefits is 9.0 percent and the ultimate trend rate is 5.0 percent, which is assumed to be achieved by 2009.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in the assumed health care cost trend rates would have the following effects for 2005:

		Increase		Decrease
Total service and interest cost	$	4	$	(3)
Accrued benefit obligation	$	42	$	(32)

14. RELATED PARTY TRANSACTIONS

In the normal course of business, Utility Group and its affiliates transact with related parties. The following related party transactions are measured at their exchange amount:

		2005
Fees for administration, management and other services paid by Utility Group to the Trust pursuant to Services Agreement	$	4
Fees for operating services paid by AUI to the Trust	$	117
Fees for administration, management and other services paid by the Trust to AUI	$	6
Fees for administration, management and other services paid by the Ikhil Joint Venture to Inuvik Gas	$	46
Gas purchases for resale by Inuvik Gas from the Ikhil Joint Venture (see Note 10)	$	198
Transportation services provided by AUI to the Trust	$	98
Natural gas purchases from the Trust	$	25,644

The resulting amounts due from and to related parties are non-interest bearing and there are no specified terms of repayment.

Included in accounts receivable at December 31, 2005 is $0.2 million due to Utility Group from the Trust.

Included in accounts payable and accrued liabilities at December 31, 2005 is $21.0 million due from Utility Group to the Trust.

15. JOINT VENTURES

Utility Group's proportionate interest in its joint venture arrangements is summarized as follows:

Proportionate Share of Net Assets		2005
Current assets	$	1,211
Property, plant and equipment		9,846
Deferred charges		75
Revenue deficiency account		1,346
Current liabilities		(1,222)
Long-term debt		(6,231)
	$	5,025

Proportionate Share of Net Income		2005
Revenue	$	657
Expenses		(585)
	$	72

Proportionate Share of Cash Flows		2005
Operating activities	$	194
Investing activities		(857)
Financing activities		597
	$	(66)

16. SEASONALITY

The natural gas distribution business is highly seasonal, with the majority of natural gas deliveries occurring during the winter heating season. Gas sales during the winter typically account for approximately two-thirds of annual revenue, resulting in strong first and fourth quarter results and losses in the second and third quarters.

17. SUBSEQUENT EVENTS

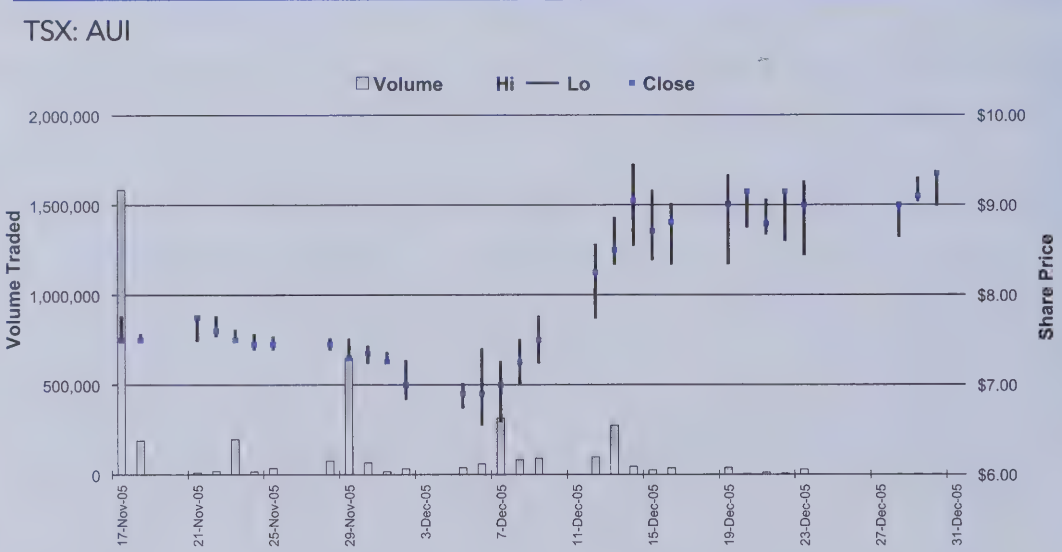
On January 16, 2006, Utility Group purchased an additional 159,372 common shares of Heritage Gas for $0.2 million and advanced $0.3 million under its long-term loan agreement.

On February 21, 2006, Utility Group purchased an additional 86,577 common shares of Heritage Gas for $0.1 million and advanced $0.2 million under its long-term loan agreement.

Contributions were also made by the other shareholders of Heritage Gas, resulting in no increase in Utility Group's ownership in Heritage Gas.

Share Trading History

AltaGas Utility Group Inc. Trading for 2005



Board of Directors

David W. Cornhill
Chairman and Director

David Cornhill is the founder of AltaGas Income Trust (then AltaGas Services Inc.) and has served as Chairman, President and Chief Executive Officer since 1994.

Mr. Cornhill is an energy industry visionary, having built one of the first midstream companies in Canada and then expanding its reach across the energy value chain. Under Mr. Cornhill's direction, AltaGas Income Trust grew from 20 employees and two service contracts to more than 600 employees and a market capitalization of approximately $1.5 billion. AltaGas Income Trust was listed on the ASE July 1999, on the TSE in 1999, and has earned a place in the S&P/TSX Capped Income Trust, S&P/TSX Capped Energy Trust and the S&P/TSX Composite indices. In 2005 he initiated the spin-out of AltaGas Income Trust's Natural Gas Distribution segment, forming AltaGas Utility Group Inc.

With more than 25 years of experience in the energy industry, Mr. Cornhill has held executive and senior positions including Vice President Finance and Administration and Treasurer, and President and Chief Executive Officer of Alberta and Southern Gas Co. Ltd. In addition, he managed economic valuations and major capital for Gulf Canada in the 1980s.

In 2000, he was named Energy Entrepreneur of the Year by Ernst & Young, in addition to earning numerous awards while with Gulf Canada and Alberta and Southern Gas Co. Ltd. He currently sits on several private and public boards with for-profit and not-for-profit organizations.

Dennis A. Dawson
Director

Dennis Dawson is Vice President, General Counsel and Corporate Secretary of AltaGas Income Trust. Mr. Dawson joined AltaGas Services Inc. as Associate General Counsel on August 15, 1997 and on December 17, 1998 became Vice President, General Counsel and Corporate Secretary. Mr. Dawson has over 21 years of oil and natural gas experience, including nine years as General Counsel for Pan-Alberta Gas Ltd., a major Canadian natural gas marketing company.

Phillip R. Knoll
Director

Phillip Knoll is the President of Knoll Energy Inc., an energy consulting and venture capital company. Previously, Mr. Knoll was Group Vice President, Duke Energy Gas Transmission, and Chair, Management Committee for Maritimes & Northeast Pipeline (M&NP), headquartered in Halifax, Nova Scotia. There he was responsible for Union Gas Limited, for Technical Services for Duke Energy Gas Transmission in North America and for M&NP (US & Canada), headquartered in Halifax, Nova Scotia. Mr. Knoll has more than 27 years of varied experience in the energy sector, primarily in midstream natural gas businesses. Throughout his career, Mr. Knoll has held senior executive and leadership positions in the development, implementation, and operation of infrastructure businesses along the entire natural gas value chain. Mr. Knoll is on the boards of Heritage Gas and other for-profit and not-for-profit organizations.

Gerry M. Malin
Director

Gerry Malin is a natural gas industry consultant and a mechanical engineer by training. Mr. Malin retired from AltaGas Income Trust in August 2005, where he was Vice President Regulatory and Northern Development. Mr. Malin has more than 35 years of experience in the oil and natural gas industry. Mr. Malin served as Vice President, Gas Services when AltaGas Services Inc. began operations on April 1, 1994, then as Vice President Extraction, Transmission and Special Projects and on April 1, 2001 was appointed Vice President Regulatory and Northern Development of AltaGas Services Inc. Prior to joining AltaGas Income Trust, Mr. Malin was Vice President, Sales and Marketing of Alberta & Southern Gas Co. Ltd. During his 21 years with Alberta & Southern Gas Co. Ltd, Mr. Malin played an integral part in procuring and managing the natural gas supply pool serving Pacific Gas and Electric Corporation of San Francisco. He also played a significant role in the restructuring of those arrangements that culminated in the wind-up of Alberta & Southern Gas Co. Ltd.

Patricia M. Newson
President, Chief Executive Officer and Director

J. Bruce Petrie
Director

Bruce Petrie is a Chartered Accountant by training and member of the Institute of Chartered Accountants of Alberta with more than 35 years of experience in the energy and utility industry. Mr. Petrie has held the position of Chief Financial Officer with Ridgeway Petroleum Corp. since 1997. Prior to that, Mr. Petrie's career included serving as Vice President and Controller for a number of major public corporations in the upstream oil and gas industry and elsewhere, including Gulf Canada Resources Limited, Gulf Canada Corporation and Hiram Walker Resources Ltd. during the time that the latter two corporations held investments in Interprovincial PipeLine Inc.'s National Energy Board regulated pipeline and in Consumers' Gas Co.'s natural gas distribution utility.

Officers

Patricia M. Newson, CA
President and Chief Executive Officer

Patricia Newson has served as Chief Executive Officer of AltaGas Utility Group Inc. since its inception in July 2005. She joined AltaGas Income Trust (then AltaGas Services Inc.) as Vice President Finance and Chief Financial Officer in 1996 and was appointed Senior Vice President Finance and Chief Financial Officer in 1998 - a position she continues to hold. She led organizational and process changes as AltaGas Income Trust grew from 20 employees to 600, and evolved from a private corporation to a $1.6 billion market capitalization public income trust.

Since it was acquired by AltaGas Income Trust in 1998, Ms. Newson has been a member of the Board of Directors and the Treasurer of AltaGas Utilities Inc. She is also AltaGas Income Trust's shareholder representative on the Shareholder Committee of Heritage Gas Limited.

Prior to joining AltaGas Income Trust, Ms. Newson acted as Manager Strategic Planning at B.C. Hydro and Power Authority and spent several years as an independent consultant to many businesses including BC Hydro, BC Gas Ltd., and the Crown Corporation Secretariat of British Columbia.

Ms. Newson's energy industry experience spans more than 25 years and includes corporate and regulatory reporting during several restructurings with Gulf Canada, GW Utilities and Olympia and York Enterprises. Ms. Newson holds a B.Comm. (distinction) in accounting and has been a member of the Institute of Chartered Accountants of Alberta for 25 years.

Deborah S. Stein, CA, CPA
Chief Financial Officer and Corporate Secretary

Debbie Stein has served as Chief Financial Officer of AltaGas Utility Group Inc. since its inception in 2005. She joined AltaGas Income Trust as Vice President Corporate Risk in January 2005 and was appointed Vice-President Controller in October 2005.

From 1999 until joining AltaGas Income Trust, Ms. Stein held the positions of Manager, Investor Relations, and Senior Internal Auditor at TransCanada Corporation. Prior to joining TransCanada, Ms. Stein was Controller at Paramount Canada's Wonderland and Regional Accounting Director for the Wendy's Restaurants' Canadian operation.

Ms. Stein holds a Bachelor of Arts in Economics, is a Chartered Accountant, Certified Financial Risk Manager, and a Certified Public Accountant. Ms. Stein continues to serve as Vice President Controller of AltaGas Income Trust.

Corporate Information

Annual Meeting
3:00 pm local time
Wednesday May 31, 2006
Royal Room
The Metropolitan Centre
333-4th Avenue S.W., Calgary, Alberta

Auditors
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Calgary, Alberta

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Investors are encouraged to contact Olympia Trust for information concerning their security holdings.

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